"Human Resources."

Daniel J.B. Mitchell

Ho-su Wu Professor

Anderson Graduate School of Management

School of Public Policy & Social Research

UCLA

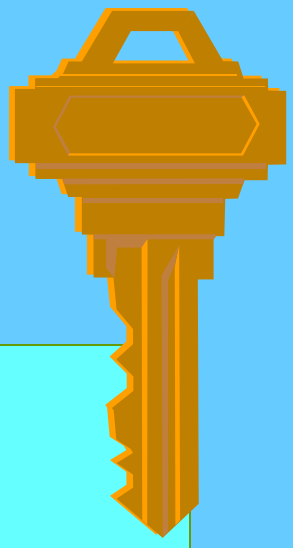
Presented by

Daniel J.B. Mitchell

“I never knew it could be like this.”

“I never knew it could be like this, either.”

Key elements of US system



- Labor market more regulated than other markets in US
- But less regulated than in many other countries
- Payroll taxes and premiums for required social insurance
- Minimum wage and overtime
- Anti-discrimination laws
- Laws regulating union-management relations
- Misc.: mandatory (unpaid) family leaves, advance notice of mass layoffs, safety & health standards

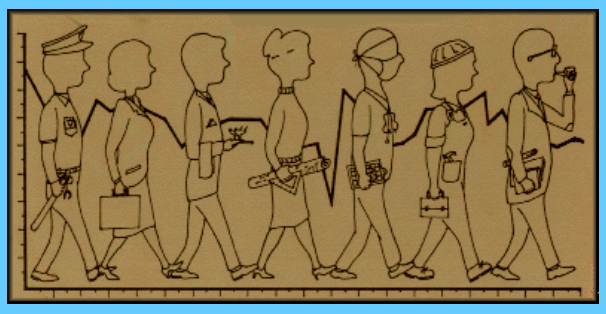
What US employers don't have to do:

- Provide health insurance, pensions, vacations, etc.
- Defend reasons for layoffs, firings, other decisions except if charges are made regarding discrimination, union activity, etc. (At-will doctrine)

Nonetheless...

- Many US employers provide benefits *voluntarily* or through negotiations
- Employers are encouraged by the *tax code* to provide certain kinds of benefits, especially health insurance and pensions
- Nonunion employers may voluntarily provide some kind of grievance mechanism
- Virtually all union contracts provide for grievance and arbitration of "rights" disputes
- At-will doctrine is eroding due to litigation over "wrongful discharge" and other legal strategies

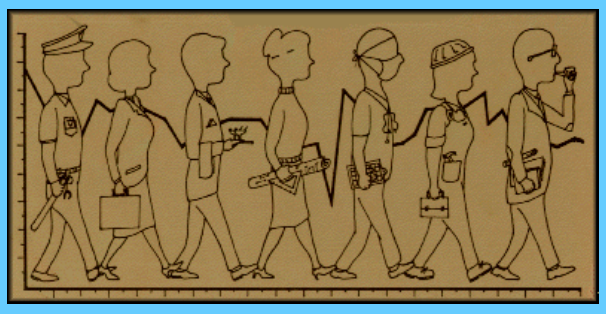
Portrait of Employed Workforce



- 135 million total employment
- 121 million wage and salary employment (84% in private sector)
- 44% have pensions of some type (1998)
- 53% have health insurance of some type (1998)
- 18 million are union represented (10 million in private sector; 8 million in public sector)

Data refer to 2000 except where indicated.

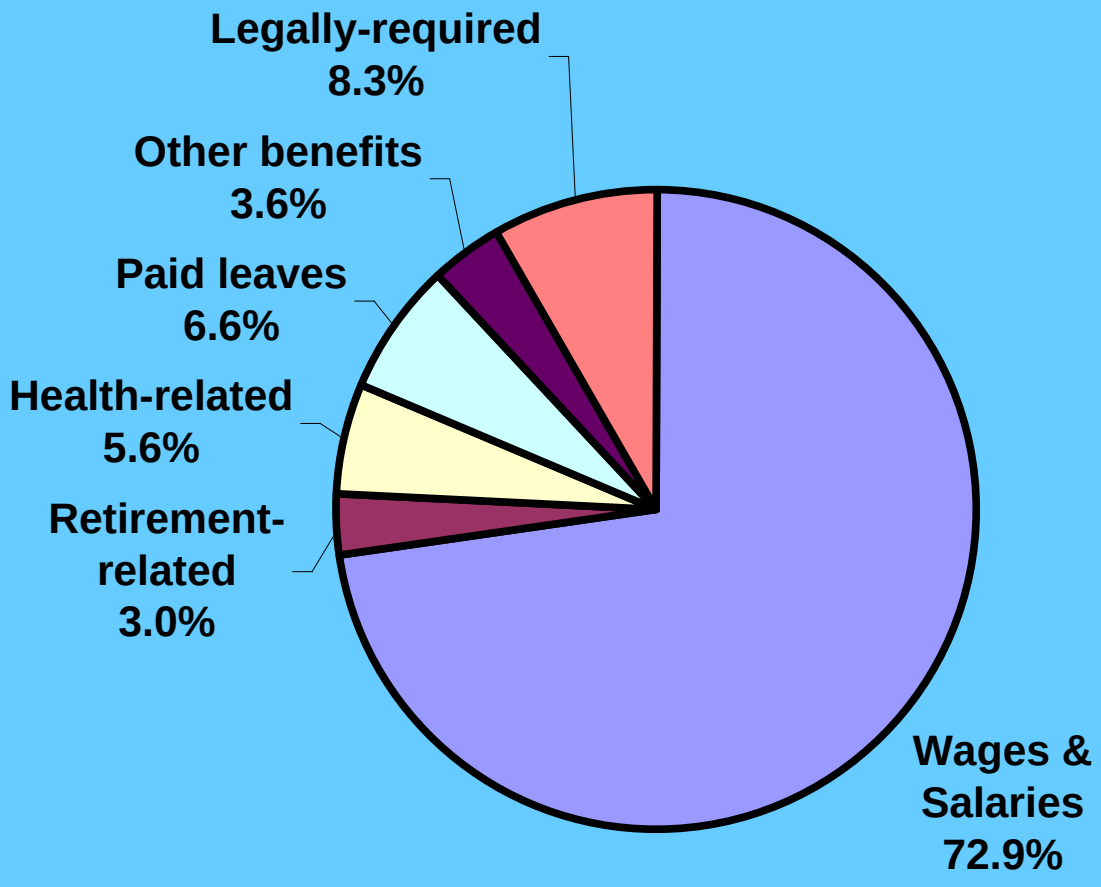
Portrait of Employed Workforce



- 47% Female
- 11% Black
- 10% Hispanic
- 4% Asian & other
- 12% Foreign born
- 15% Part-time
- 3% Work for temp agencies
- 4% Classified as "contingent" (1999)

Data refer to 2000 except where indicated.

Division of hourly compensation pie:

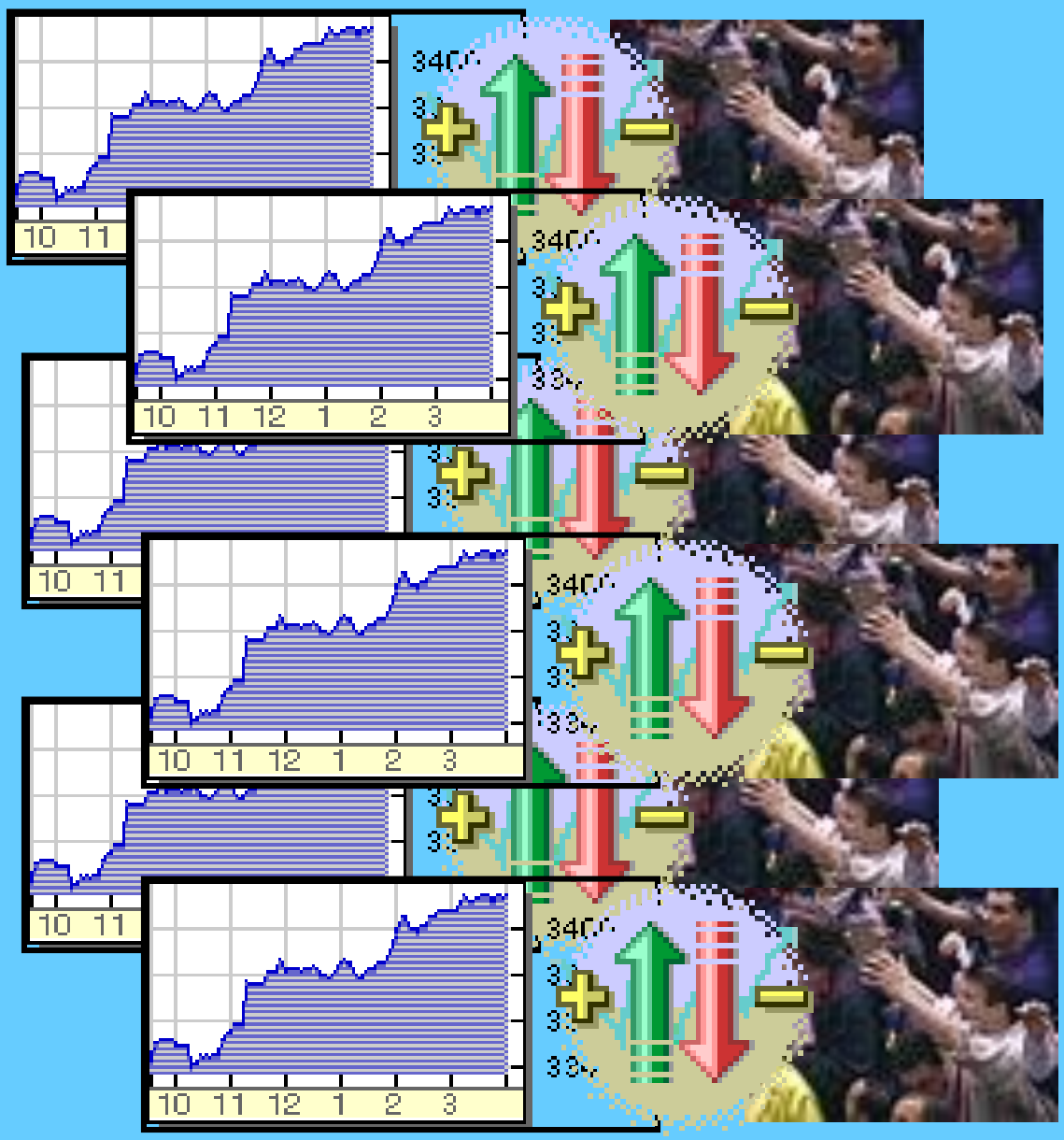


Total = US$20.81 as of March 2001

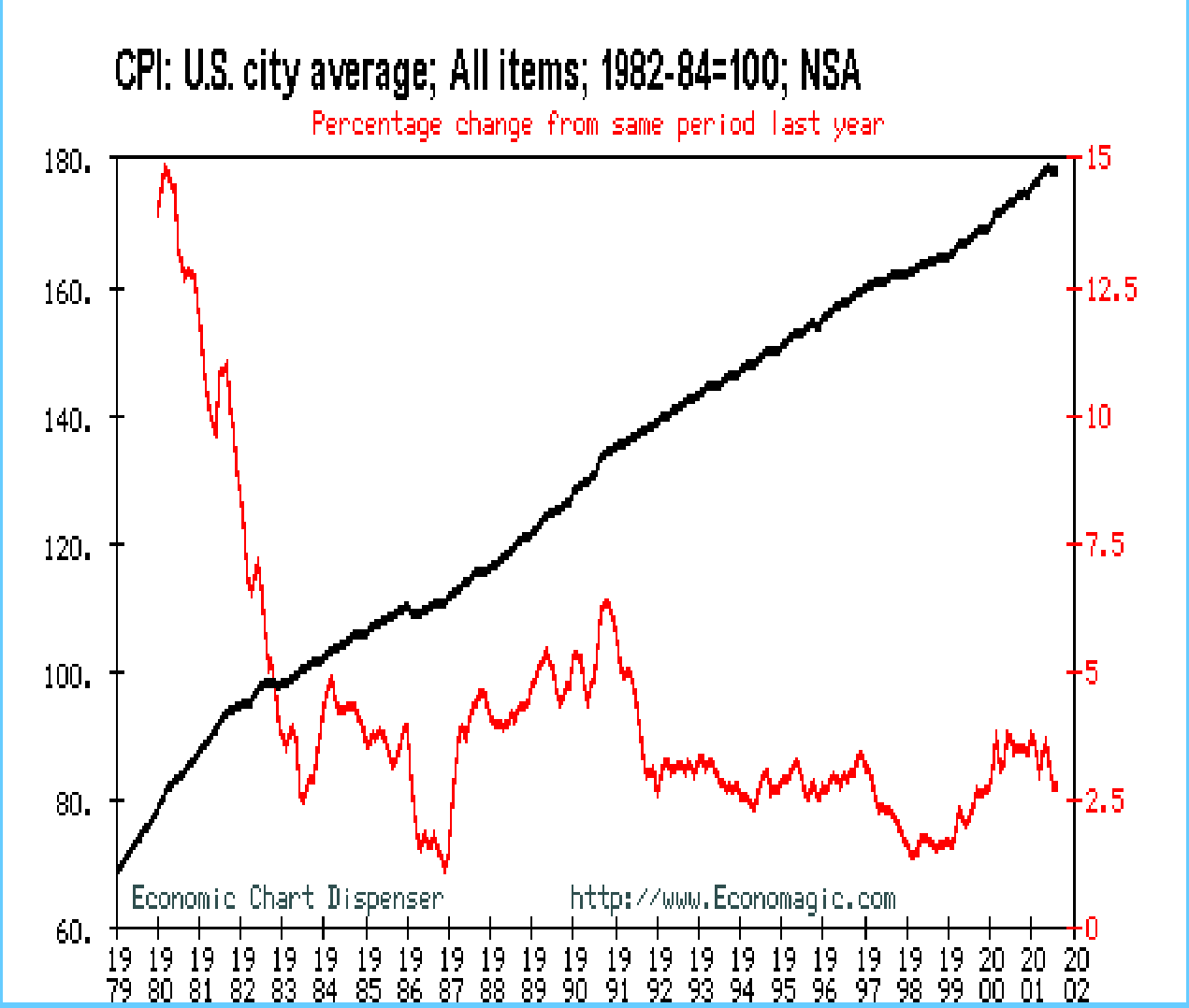
Overview

- Economic Background
- The Changing Employment Relationship
- Compensation
  - Wages
  - Benefits
  - Alternative Pay Systems
- Employee Relations
  - Union
  - Litigation
  - Nonunion
- Future
  - Workforce Diversity
  - Workforce Aging

Economic Background

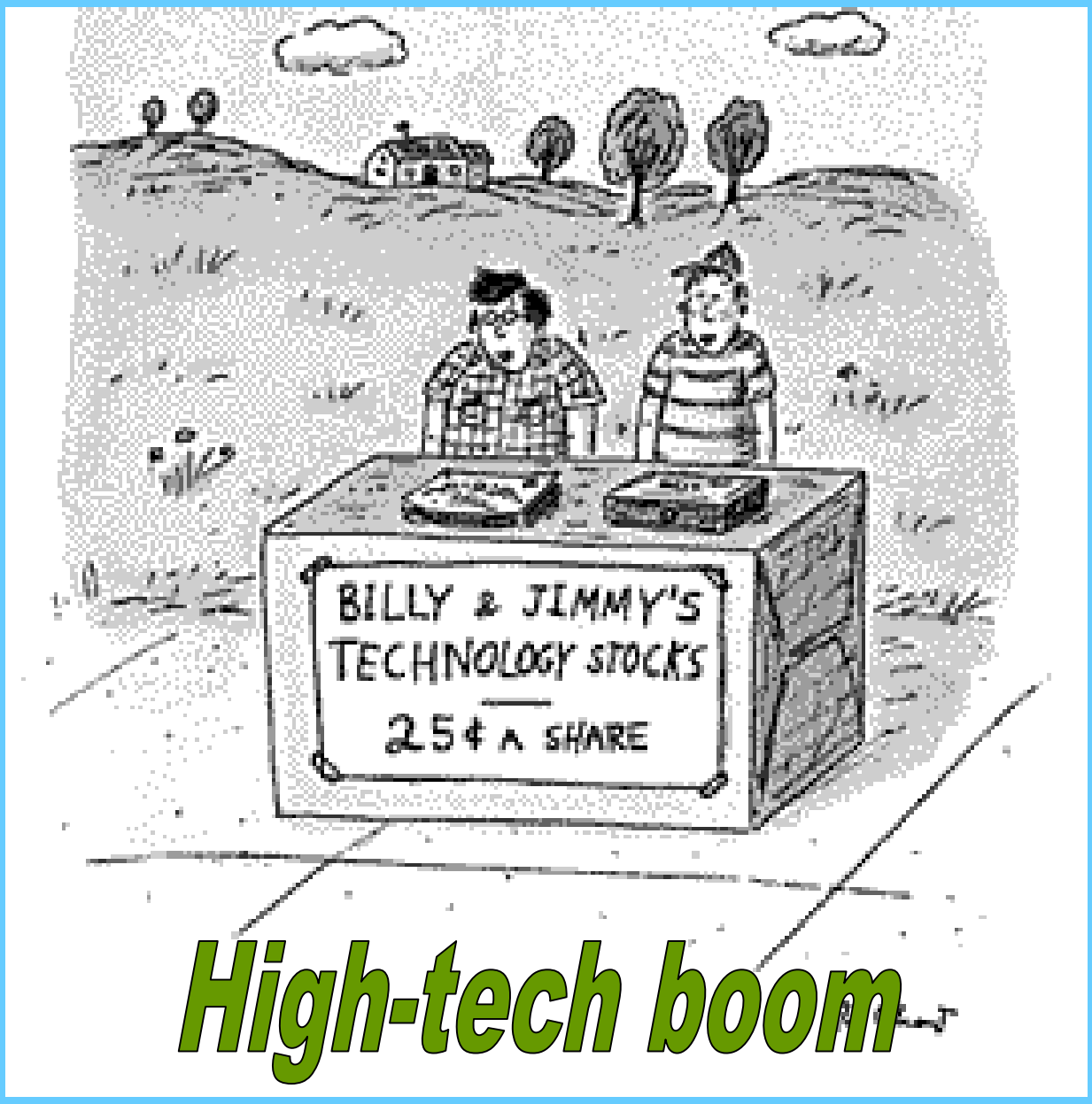


Economic Background:



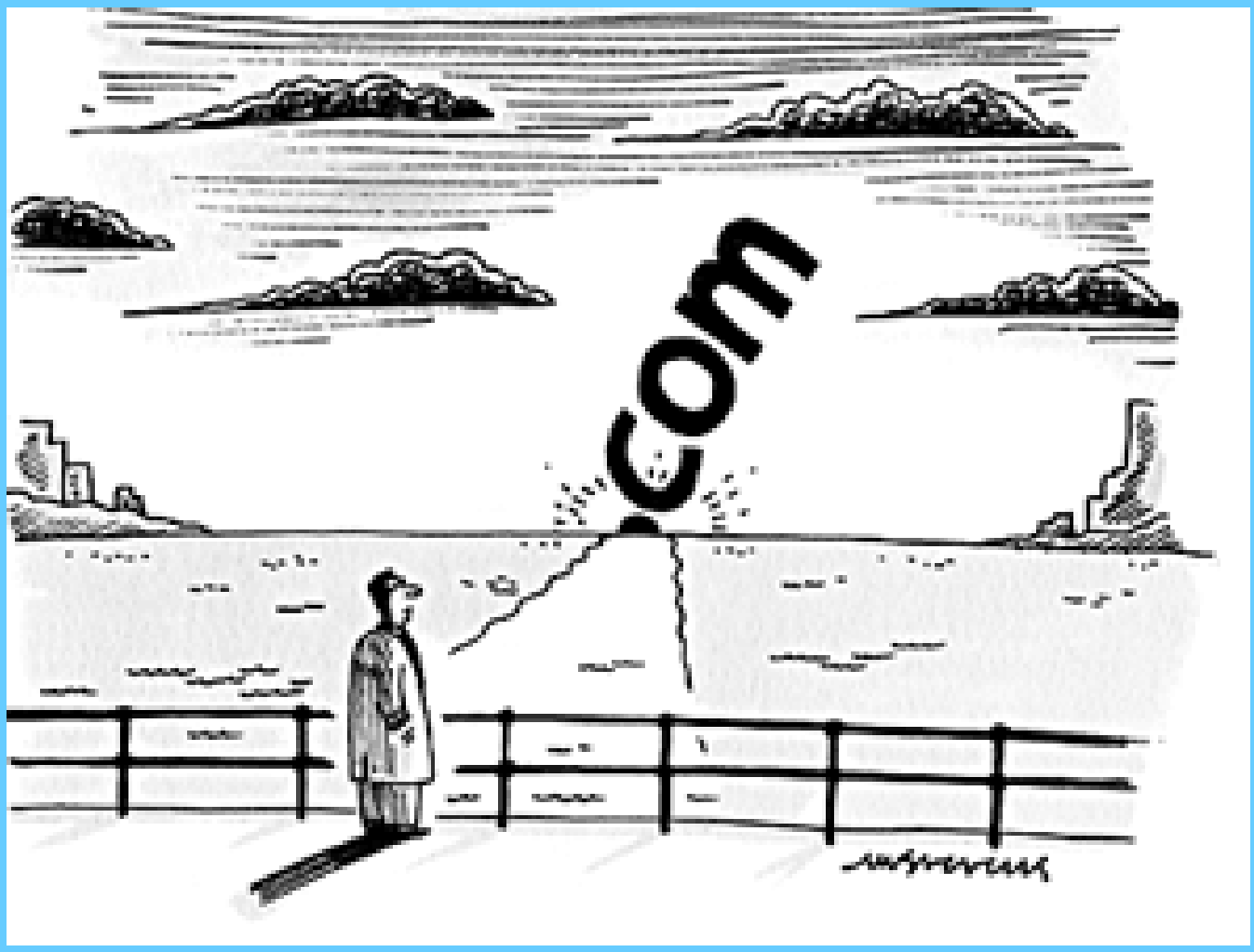
Low inflation economy

Economic Background:



High-tech boom fueled economy in late 1990s

Economic Background:



Sunset of the dot-coms led to slowdown

The Unknown Economic Impact of Sept. 11, 2001

The New York Times

NEW YORK, WEDNESDAY, SEPTEMBER 12, 2001

15 CENTS

U.S. ATTACKED

HIJACKED JETS DESTROY TWIN TOWERS AND HIT PENTAGON IN DAY OF TERROR

A CREEPING HORROR

Buildings Burn and Fall as Onlookers Search for Elusive Safety

President Vows to Exact Punishment for 'Evil'

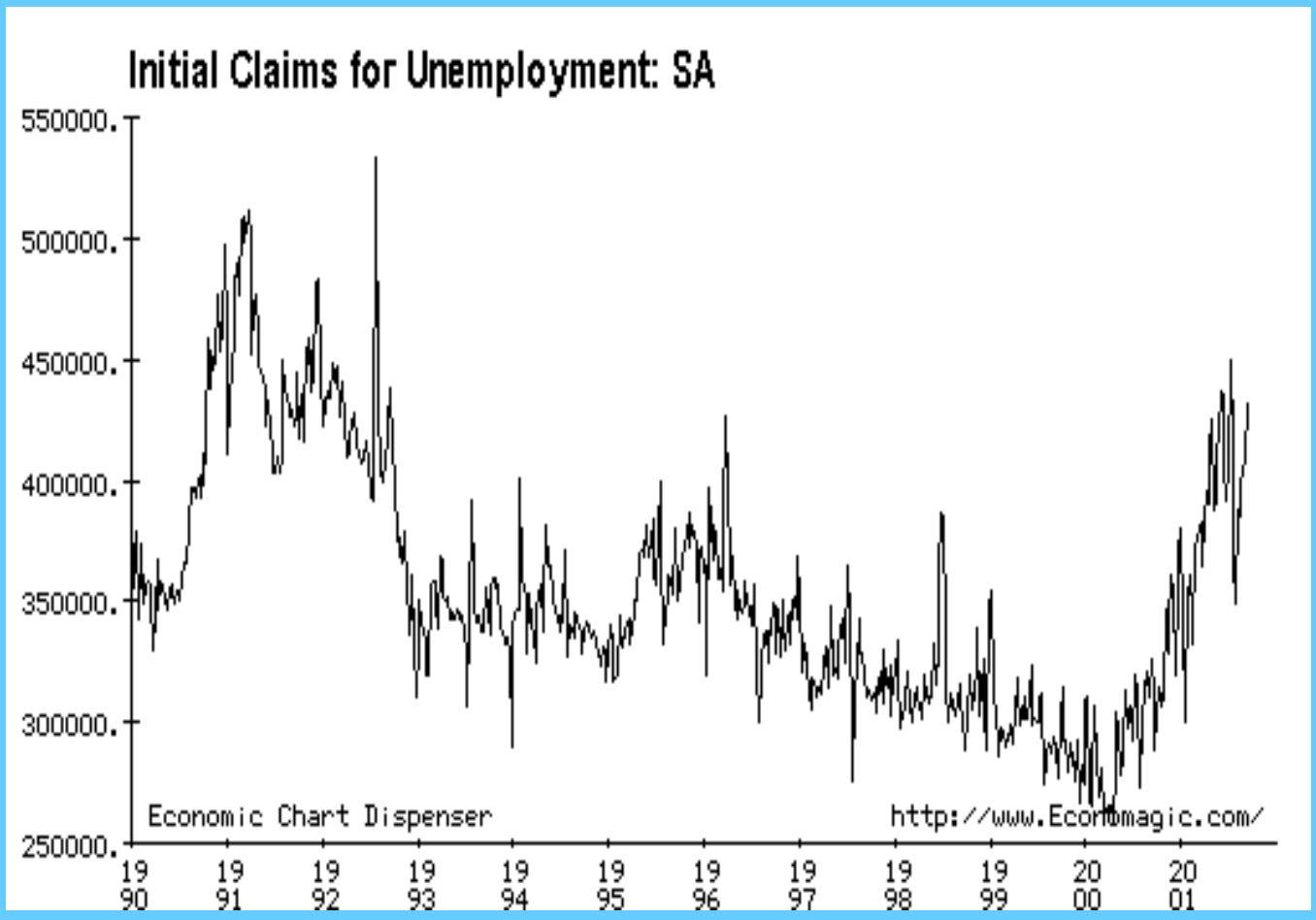
A Somber Bush Says Terrorism Cannot Prevail

Awaiting the Aftershocks

Washington and Nation Plunge Into Fight With Enemy Hard to Identify and Punish

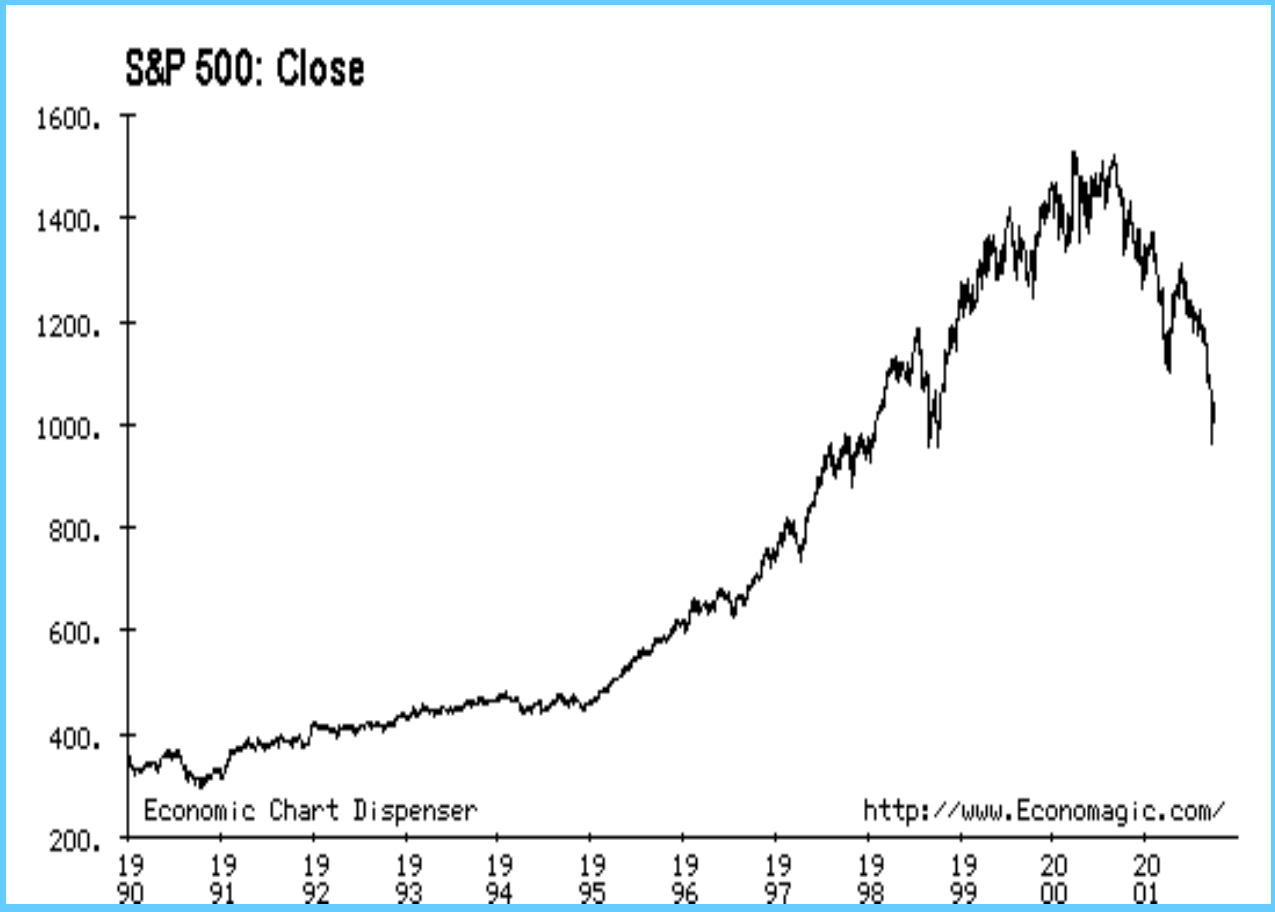
MORE ON THE ATTACKS

Economic Background:



Uptick in layoffs

Economic Background:



Rising stock market boosted consumption

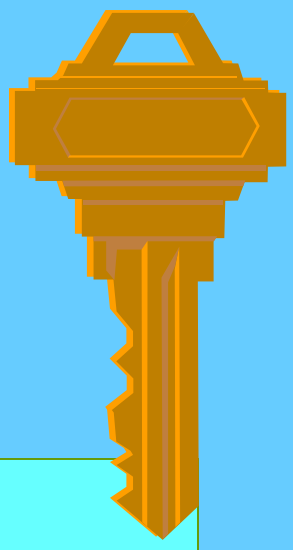
Economic Background:

But high-tech bust led to stock declines

Economic Background:

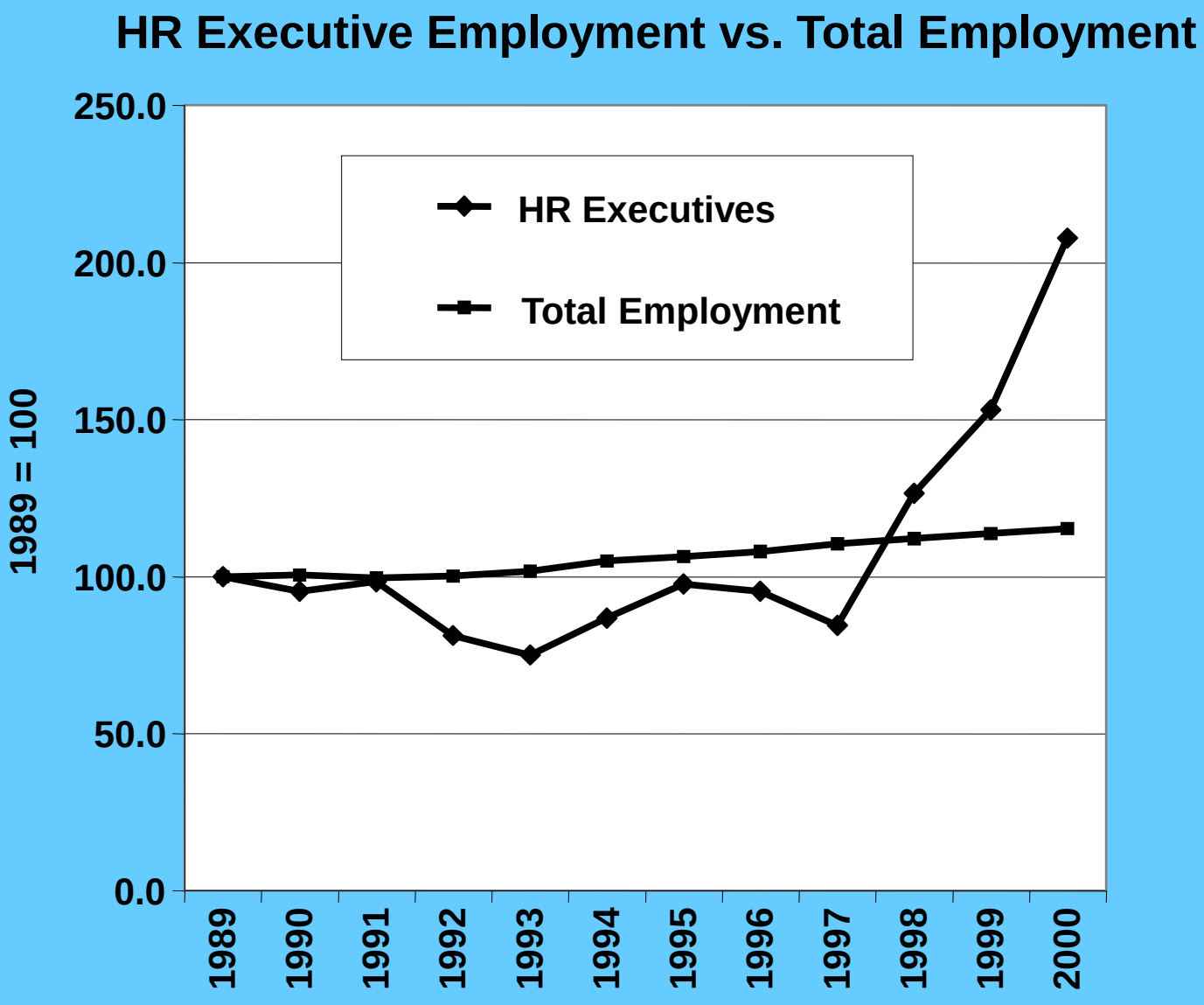
...killing enthusiasm for stock options

Key Economic Questions



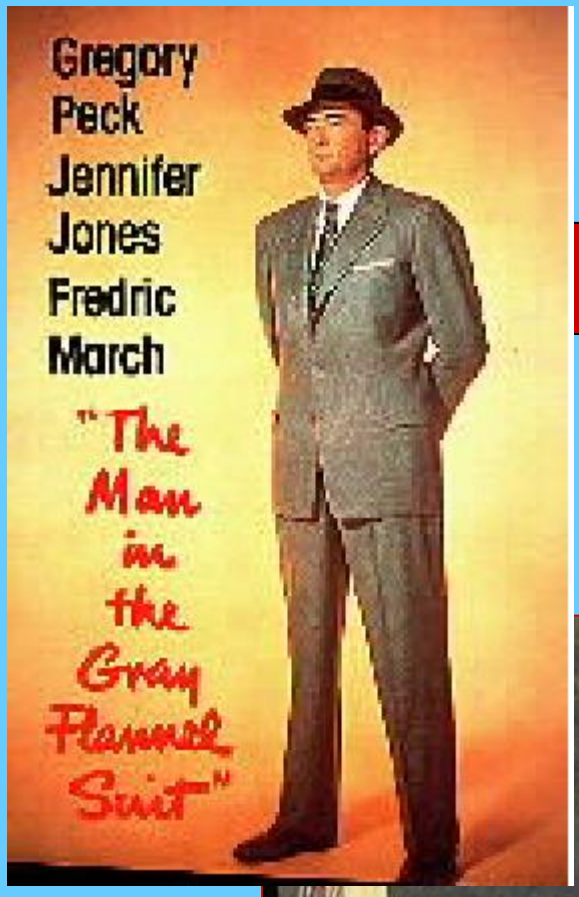
- **Will US consumers eventually be spooked by terrorism, stock market, and layoffs causing sharp recession?**
- **Will layoffs extend further into managerial/professional and white collar occupations as in early 1990s?**
- **Will employers "overshoot" in downsizing as sometimes occurred in early 1990s?**

Trend in HR Executive Employment



Pro-cyclical down- and upsizing

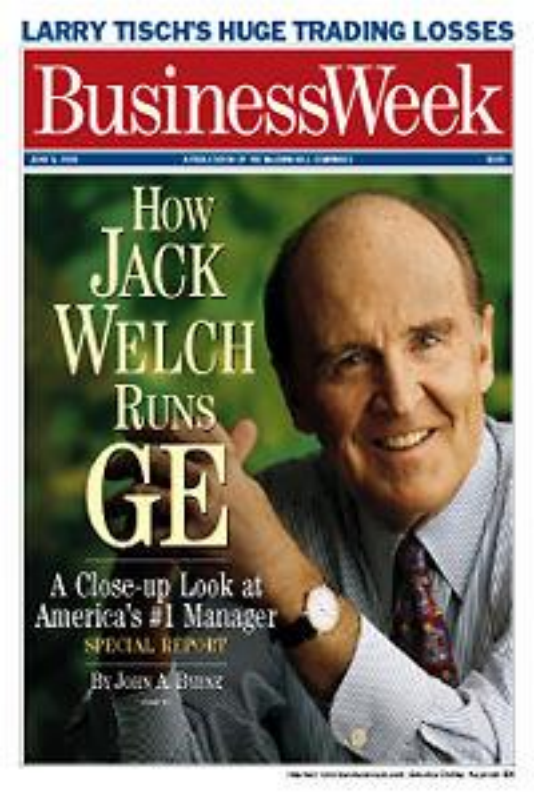
The Changing Employment Relationship

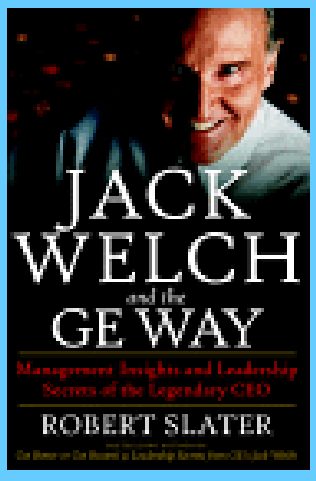


?

Changing employment relationship:

The Jack Welch Model


LARRY TISCH'S HUGE TRADING LOSSES
BusinessWeek
How Jack Welch Runs GE
A Close-up Look at America's #1 Manager
SPECIAL REPORT

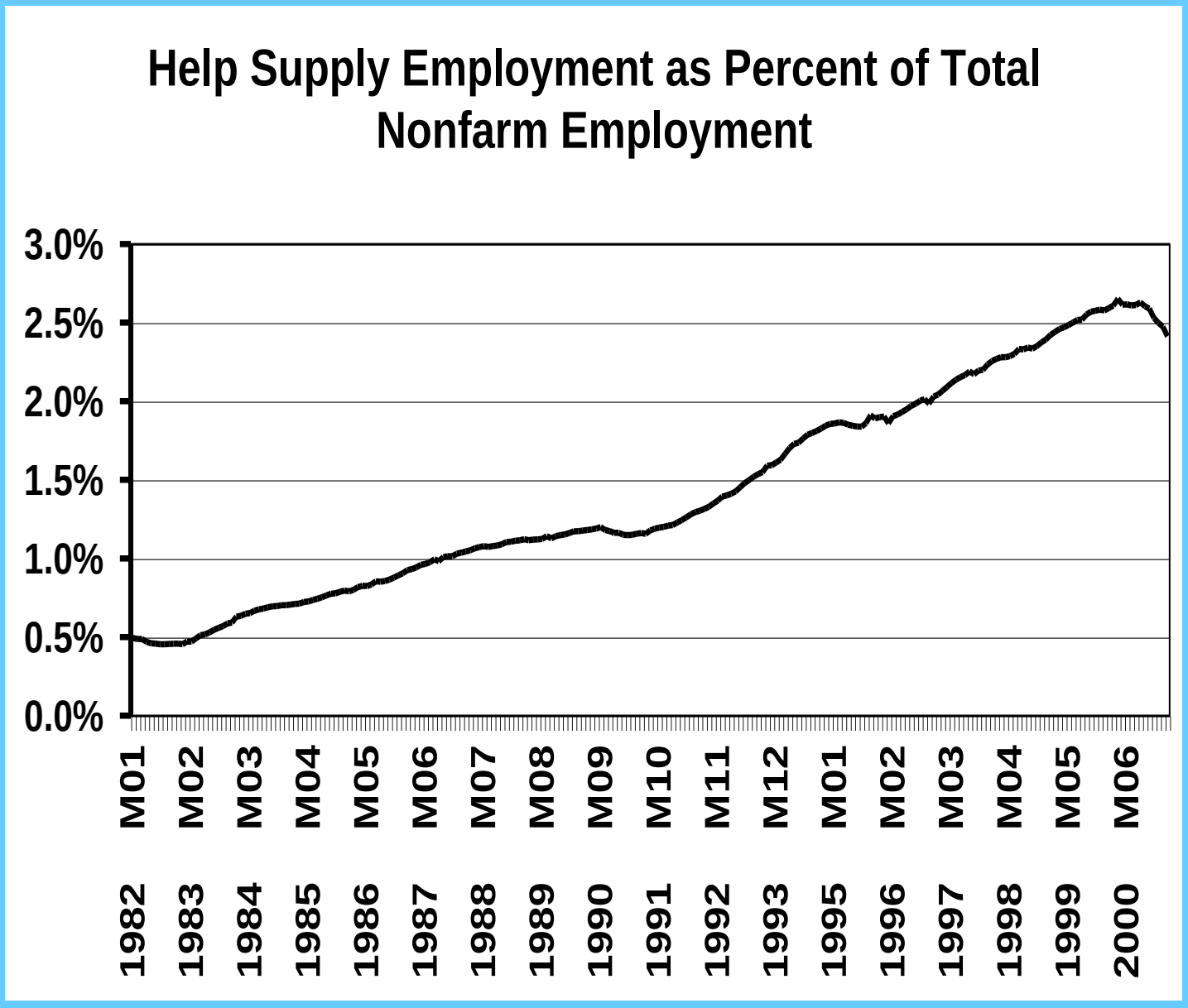


"At the end of the week we cut your paycheck… we start afresh on Monday."

Changing employment relationship:

At least his wife loves him.

Changing employment relationship:



Temps Cut First

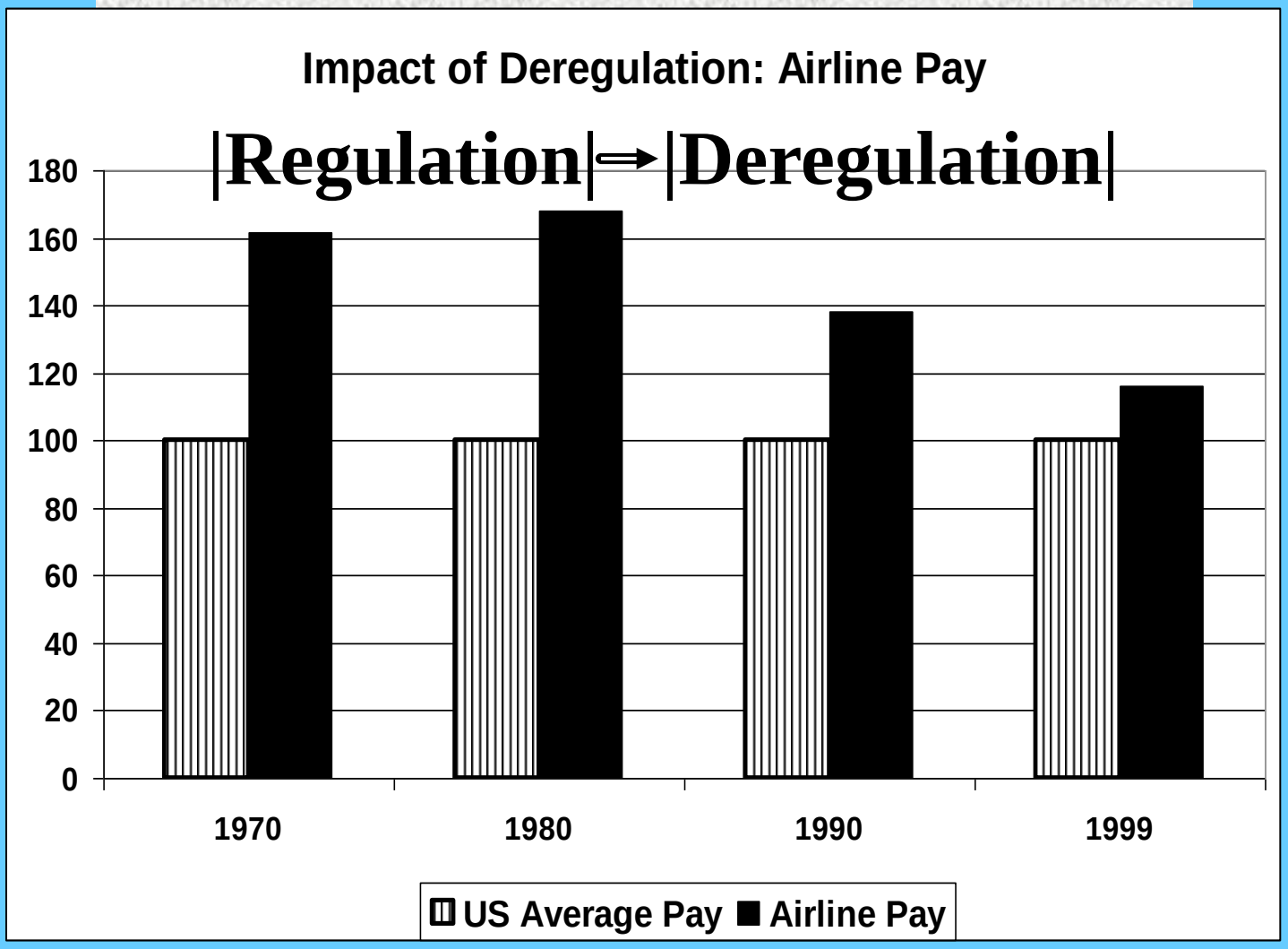
Changing employment relationship:

Possible change agents:

- More competition through product market deregulation
- Technology and production scale
- Market for corporate control and financial markets
- Uncertainty due to international forces

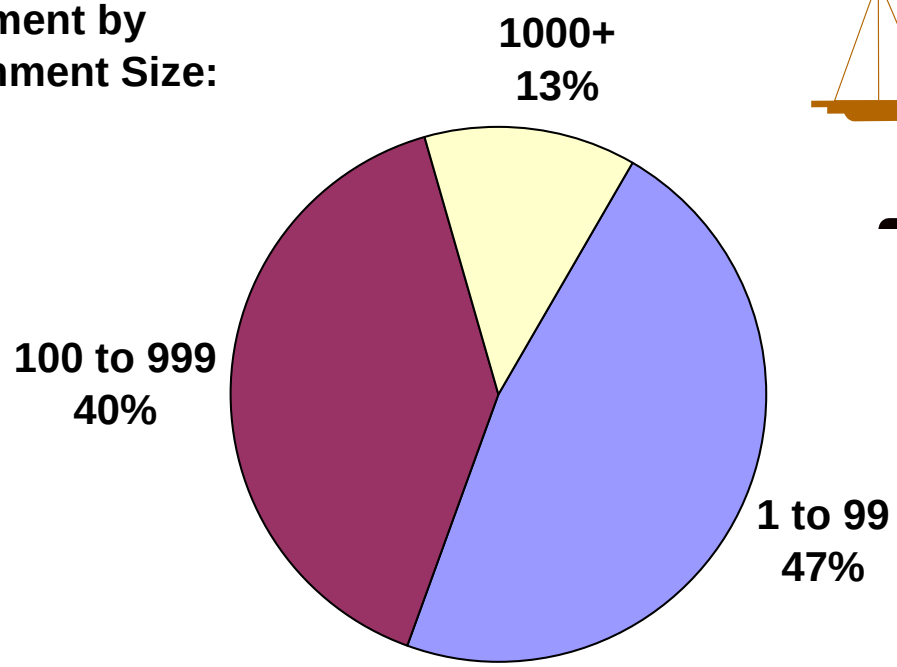
Changing employment relationship:

Deregulation and Pay

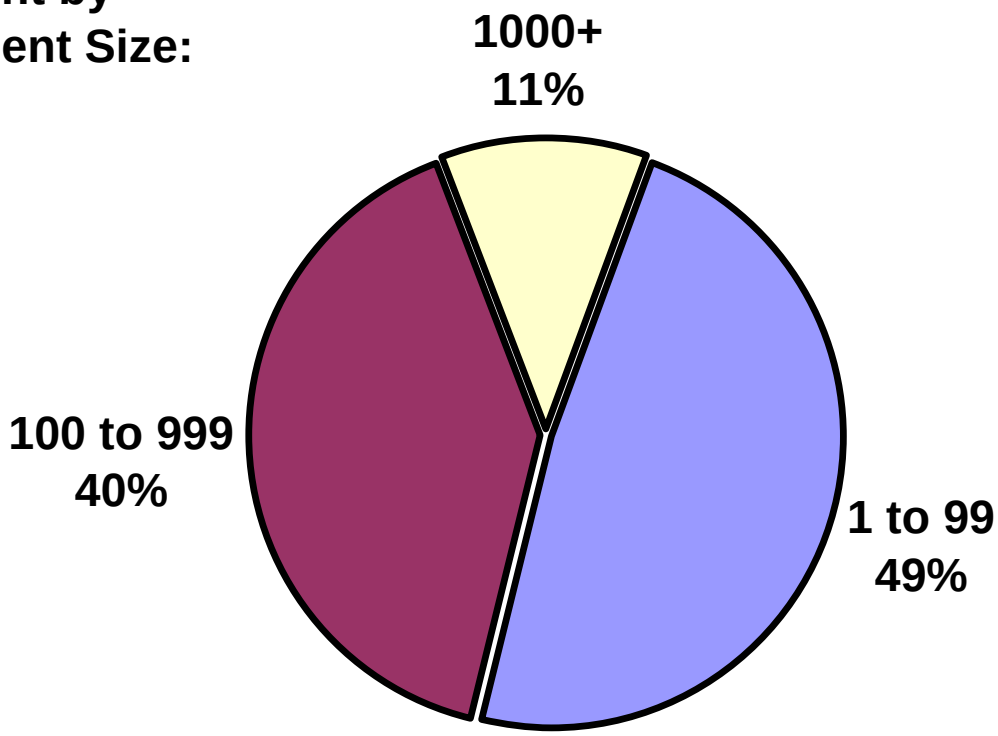


Changing employment relationship:

Distribution of Employment by Establishment Size: 1979

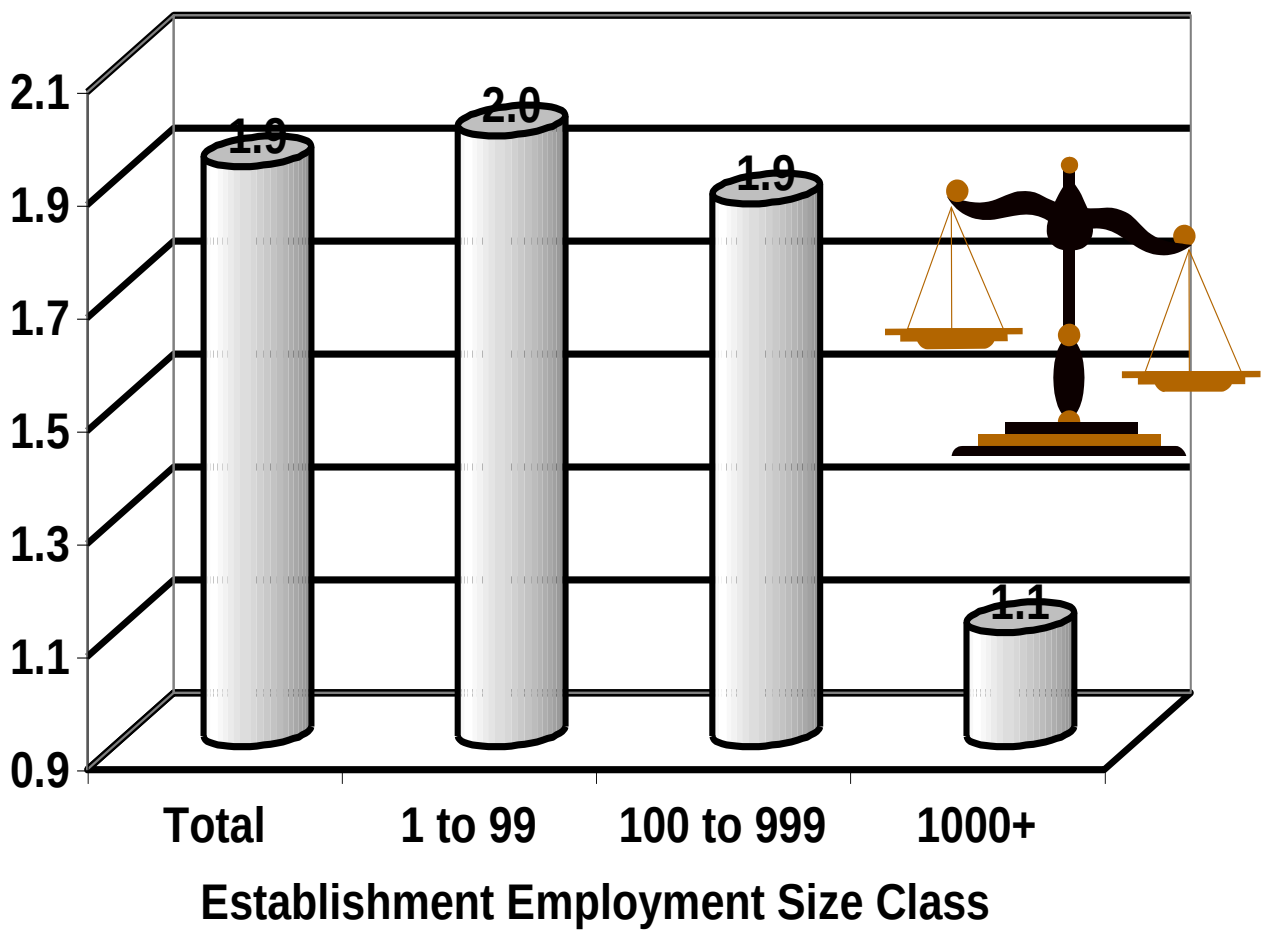


Distribution of Employment by Establishment Size: 1997



Changing employment relationship:

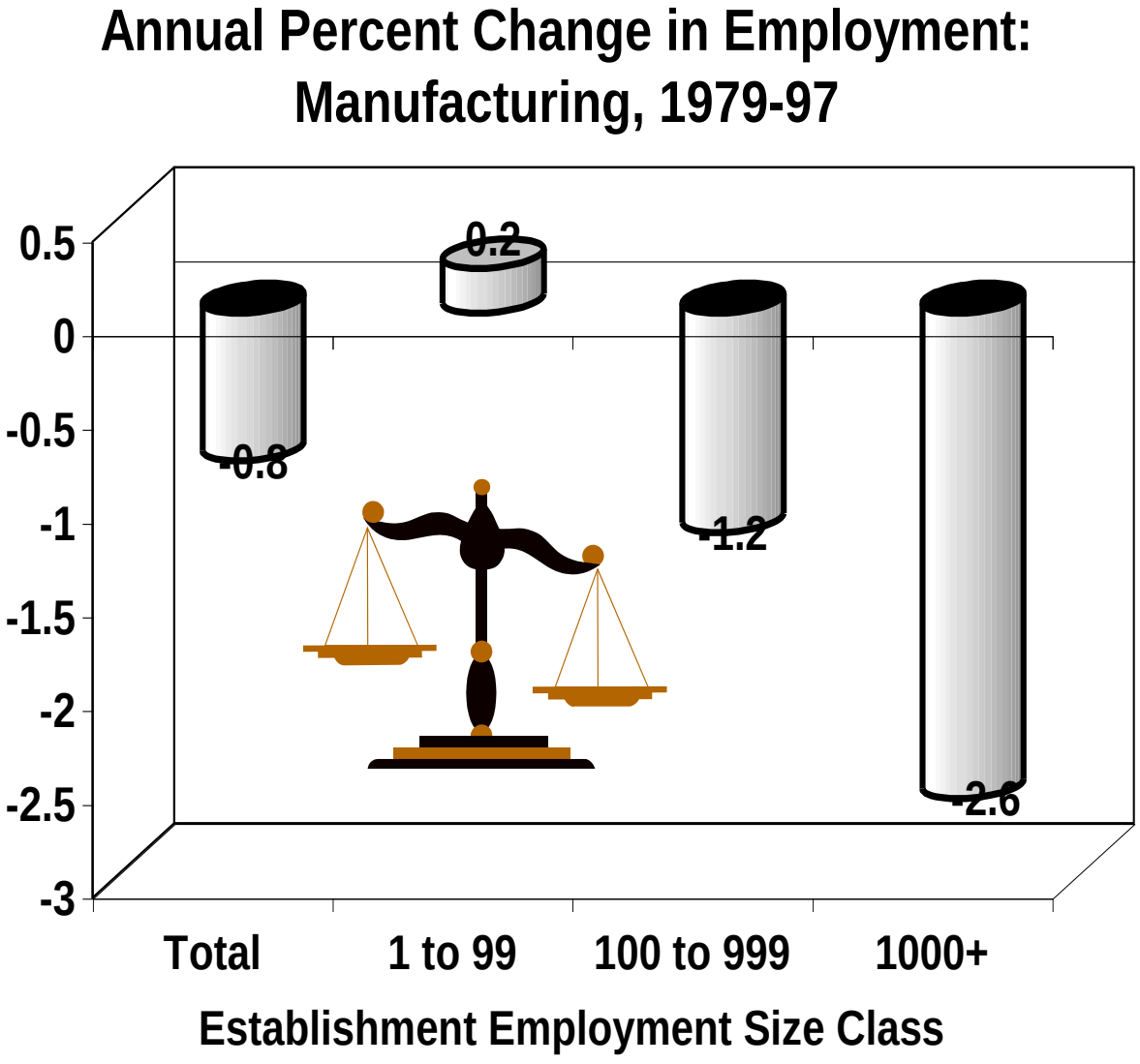
Scale of Production Changes



Source: County Business Patterns

Changing employment relationship:

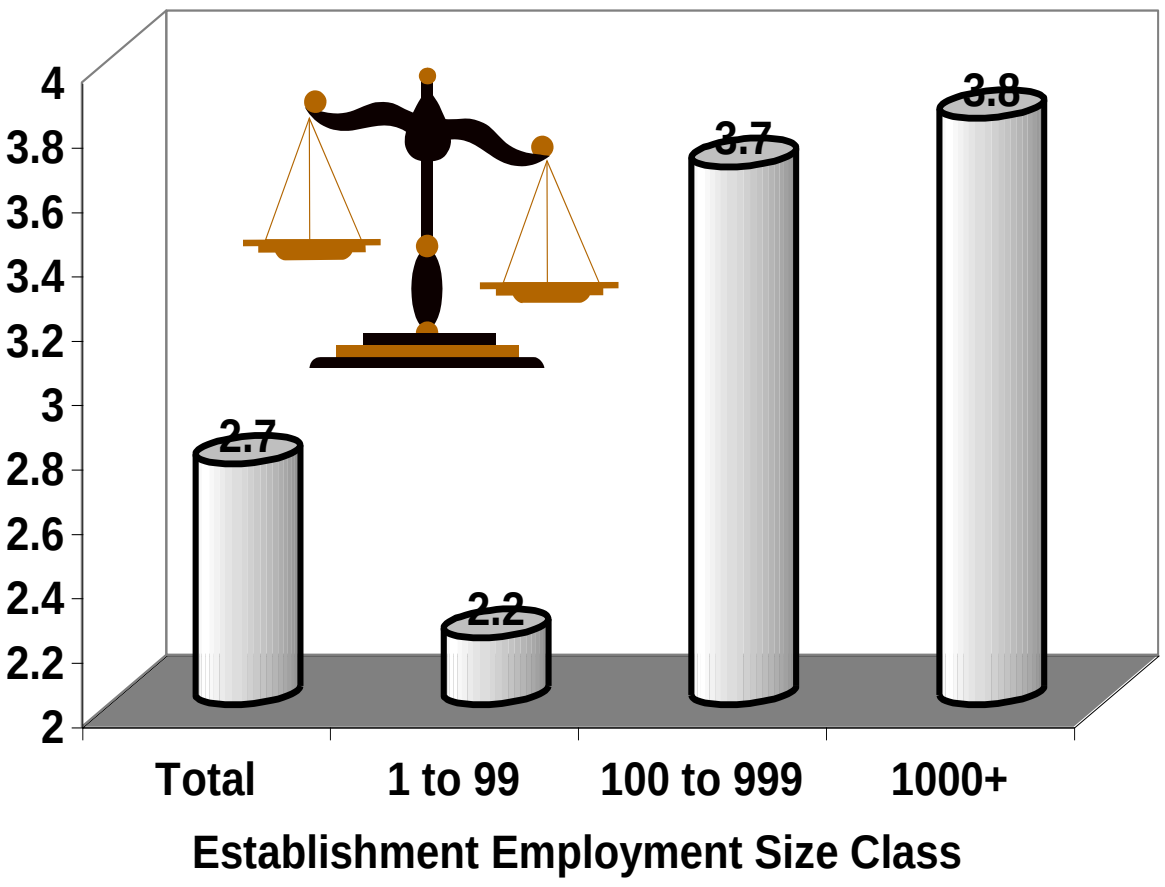
Scale of Production Changes



Source: County Business Patterns

Changing employment relationship:

Scale of Production Changes

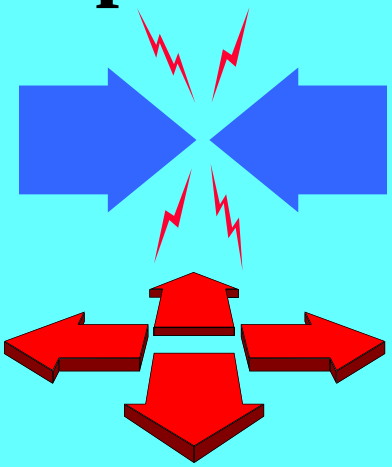


Source: County Business Patterns

Changing employment relationship:

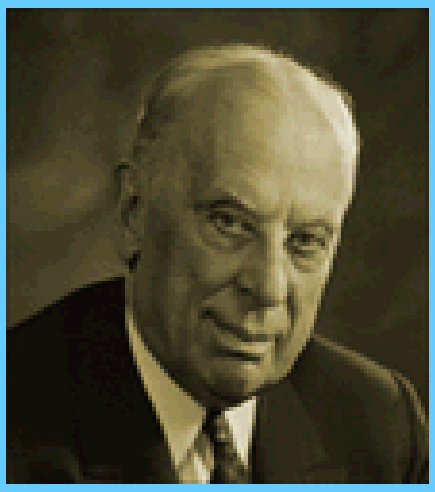
Other factors often cited:

- **Widened market for corporate control**
  - **Mergers**
  - **Acquisitions**
  - **Takeovers**
  - **Spinoffs**



- **Rise of economic uncertainty starting in 1970s:**
  - **Exchange rates**
  - **Oil shocks**
  - **“Globalism”**

Reminder from Alfred P. Sloan, Jr.



"Take my assets, but leave me my organization and in five years I'll have it all back."

Compensation

COMBINED PAYROLL, INCOME TAX, AND SOCIAL SECURITY RECORD — FORM D-65A — MEN 100% RAG PAPER — McMILLAN BOOK CO SYRACUSE, N. Y.

DATE OR WEEK NO.	TIME LOST DATE	TIME LOST HRS.	* REASON	TIME WORKED DATE	TIME WORKED HOURS	RATE	EARNINGS: SALARIES OR WAGES	BONUS COMMISSION	TOTAL EARNINGS	MONTHLY AND CUMULATIVE TOTALS	AMOUNT NON-TAXABLE: STATE UNEMPLOYMENT INSURANCE	FEDERAL OLD AGE BENEFIT	DEDUCTIONS: STATE U.I. TAX	FED. O.A.B. TAX	TOTAL DEDUCTIONS	AMOUNT PAID	CHECK NO.	EMPLOYER TAX: STATE UNEMP.	EMPLOYER TAX: FED OLD A
1																			
2																			
3			1/2	44	28		12 32							12	12	11 20			
4				44	28		12 32							12	12	11 20			
5				43	28		12 04							12	12	11 92			
6				44	28		12 32							12	12	11 20			
7				44	28		12 32							12	12	11 20			
8				43	28		12 04							12	12	11 92			
9				44	28		12 32							12	12	11 20			
10				44	28		12 32							12	12	11 20			
11				40	28		11 20							11	11	11 09			
12				44	28		12 32							12	12	11 20			
13				13 / 21	28		9 66							10	10	9 56			
14				44	28		12 76							12	12	11 64			
15				30	28		8 61							09	09	8 53			
16				34	28		10 12							11	11	10 81			
17				43	28		12 04							12	12	11 92			
18				43	28		12 18							12	12	11 06			
19				39	28		11 06							11	11	10 95			
20				44	28		11 97							12	12	11 85			
21				42	28		11 83							12	12	11 71			
22				44	28		12 64							13	13	12 51			
23				40	28		11 20							11	11	11 09			
24				44	28		11 90							12	12	11 78			
25				33	28		9 31							09	09	9 22			
26				43	28		12 18							12	12	11 06			
27																			
TOTAL																			

HOURS FULL TIME WEEK — WEEKLY EARNINGS FULL TIM

MARRIED — SINGLE — WIDOWER — NO. IN

ADDRESS AND ADDRESS CHANGES

OCCUPATION: LEASE PICKER

YEAR	DEPARTMENT	CITY AN
1939	PREPARATORY	

NAME: (LAST) PHILLIPS — (FIRST) CLAUD — (MIDDLE) FREEMAN

GLENCOE MILLS
BURLINGTON, N. C.

Name_____

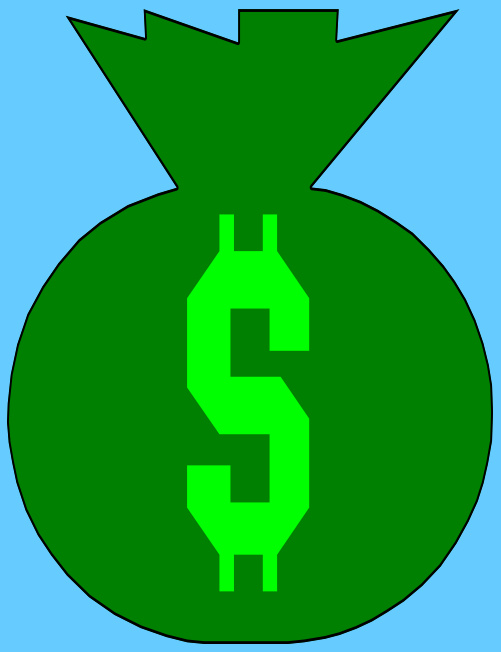
For Week Ending_____

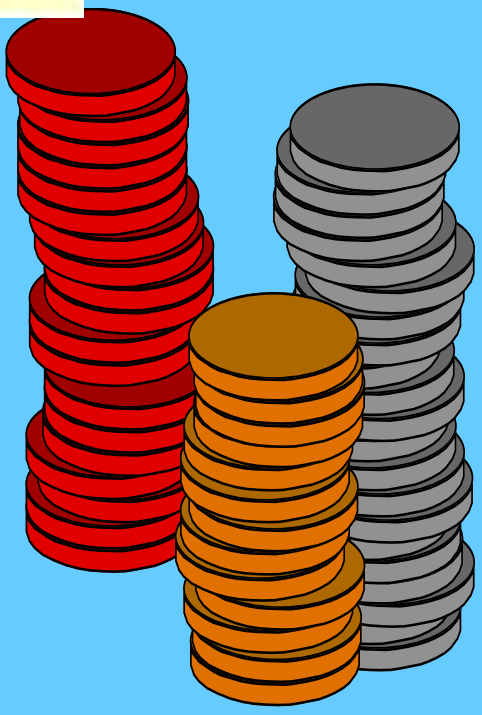
Hours	Pieces	Price Per Hour	Price Per Piece	Amount
Premium				
Docks				
Taxable Wages				

F. O. A. B. TAX	
RENT	
POWER	
TOTAL	

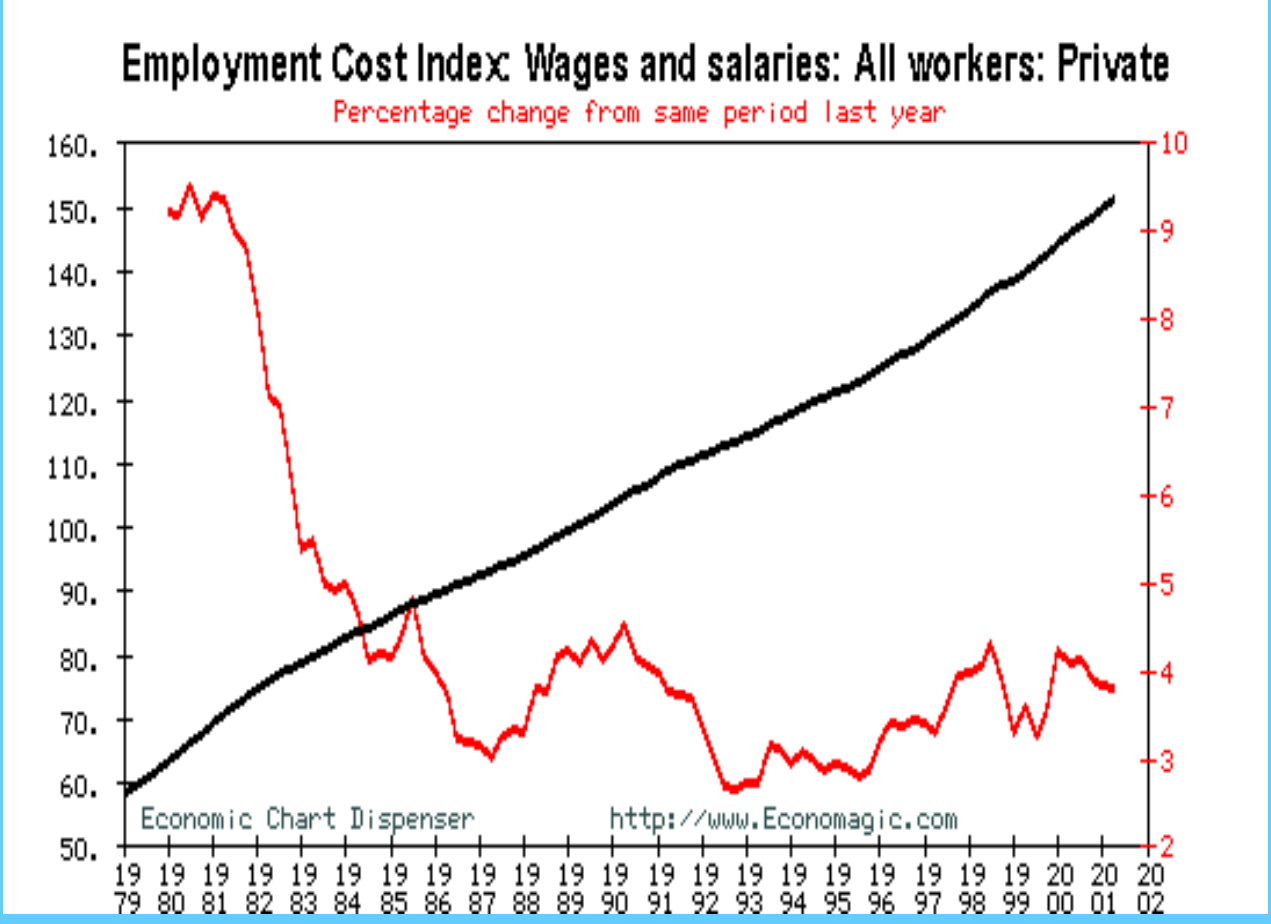
Respectfully,
GLENCOE MILLS

THIS IS YOUR RECEIPT. KEEP IT.





Compensation: Wages



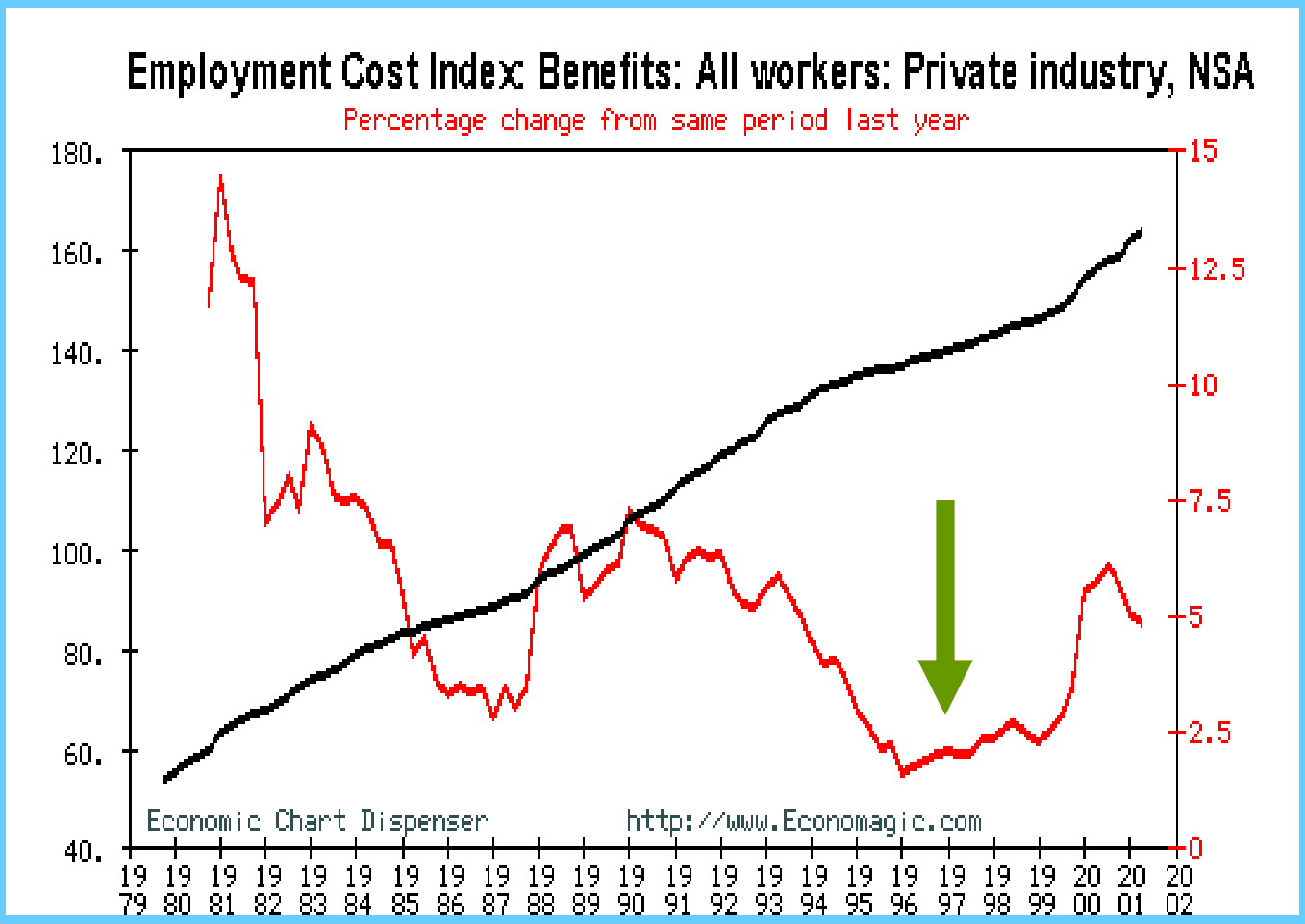
No big wage hikes even during labor shortages of late '90s

Compensation: Wages

Decline of formal wage escalation

- **Union decline**
- **Drop in concern about inflation**

Compensation: Benefits



Managed care held down health costs; stock market held down pension costs

Compensation: Benefits

Private employer decisions...

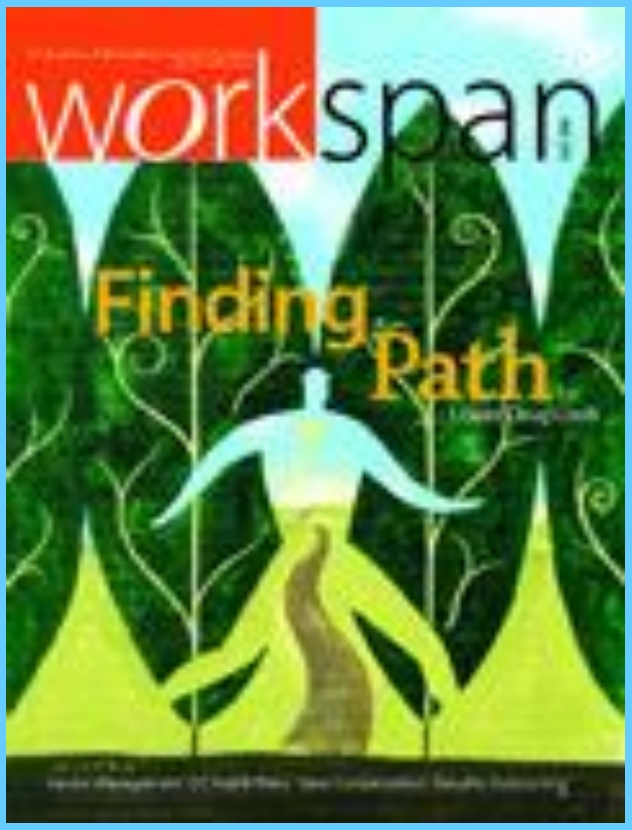
Compensation: health insurance

"Unfortunately, you have what we call 'no insurance.'"

...become a social and political issue.

Contents of August issue

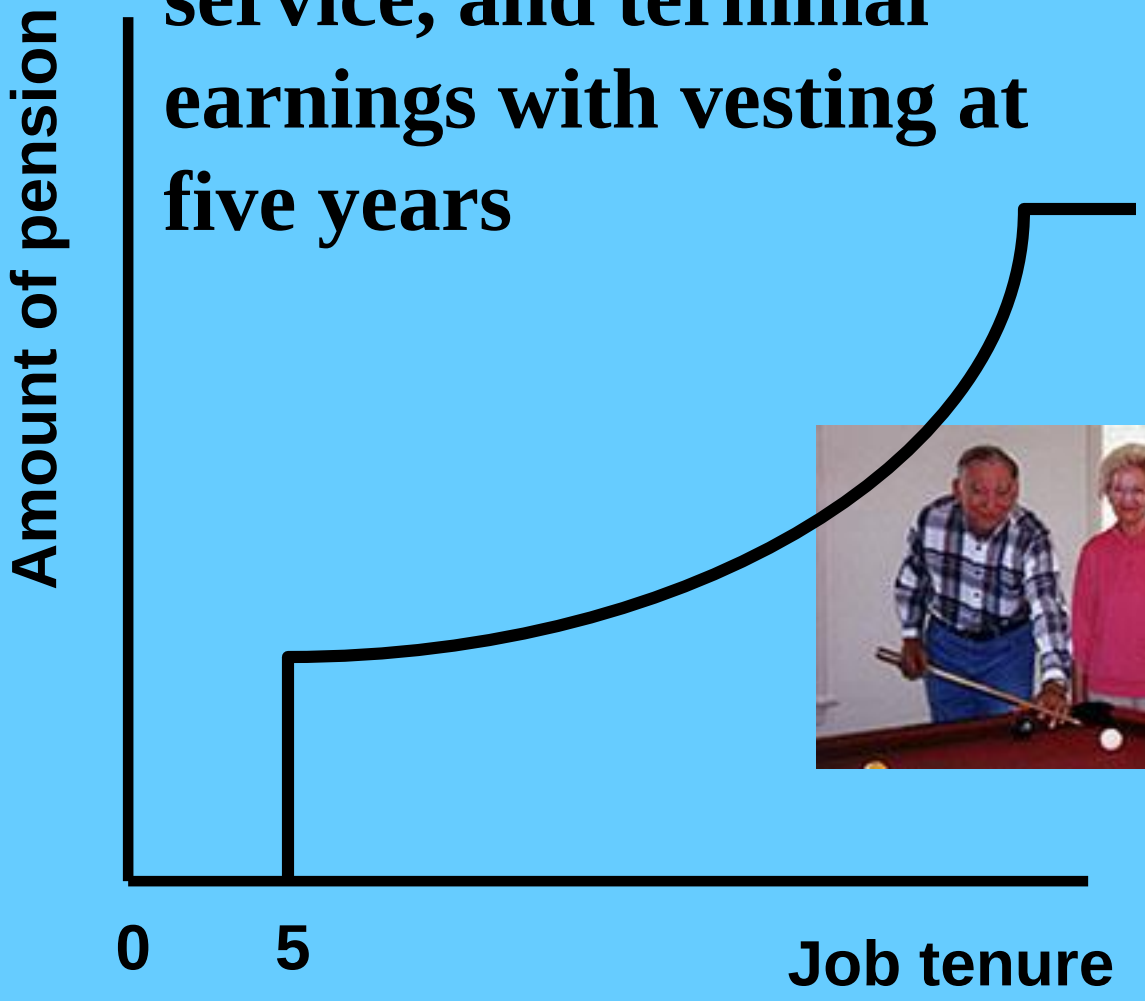
- Finding a path to lower drug costs
- Controlling resurging health care costs
- Defined contribution health benefits



Is this how HR executives should be spending their time?

Stylized Characteristics of DB Plans

Formula based on age, service, and terminal earnings with vesting at five years

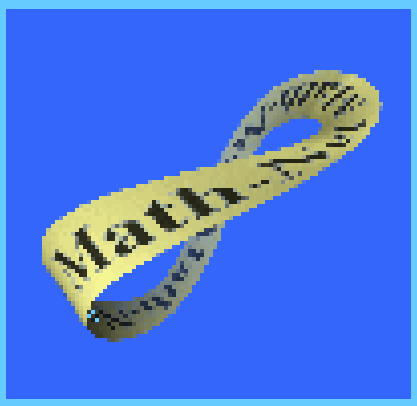


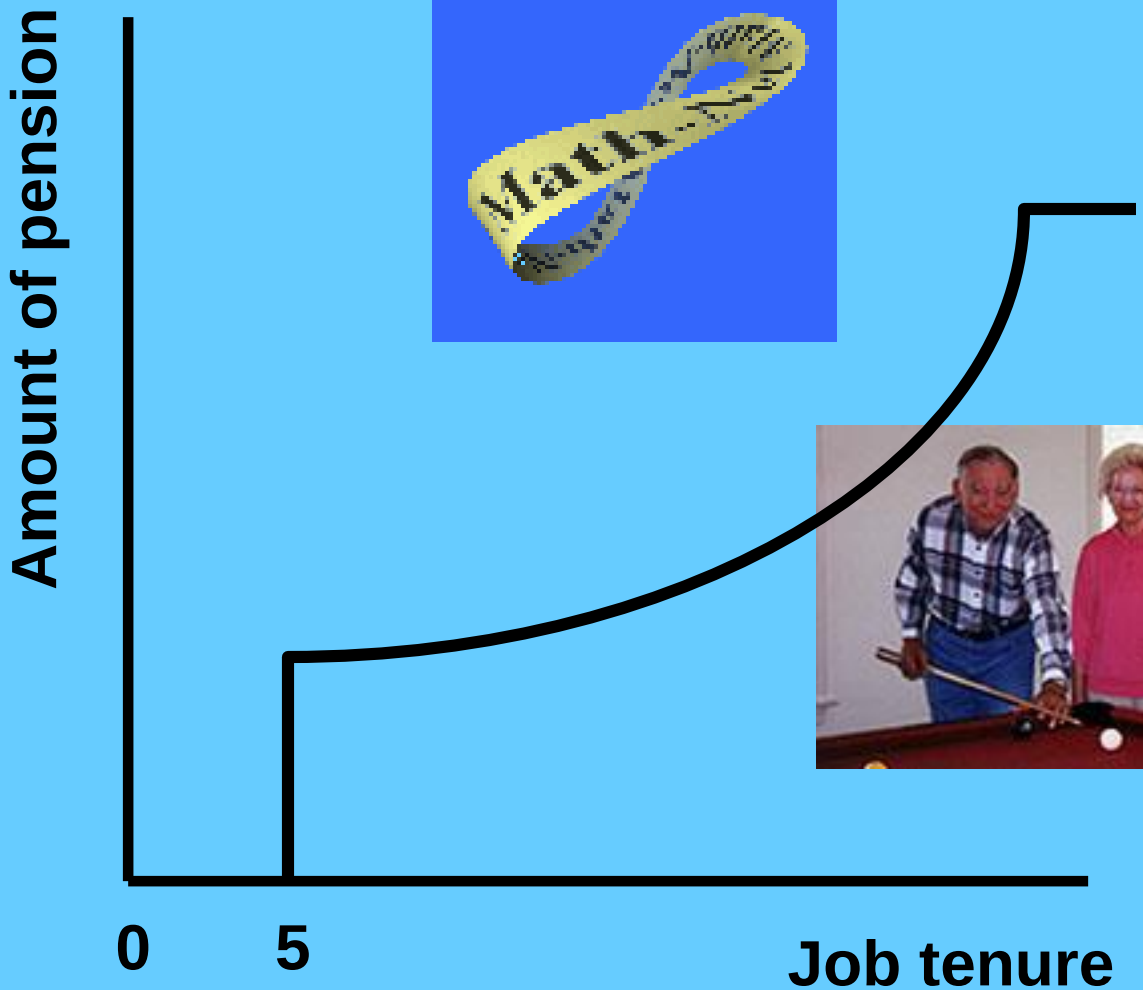
Compensation: Pensions

Unique math of DB plans:

15+15 < 30

4 + 21 = 21





Compensation: Pensions

Typical DC Plan and Cash Balance Alternative

- You get what you save
- You can take it with you
  (No funny math)
- Value at retirement will depend on your investment decisions

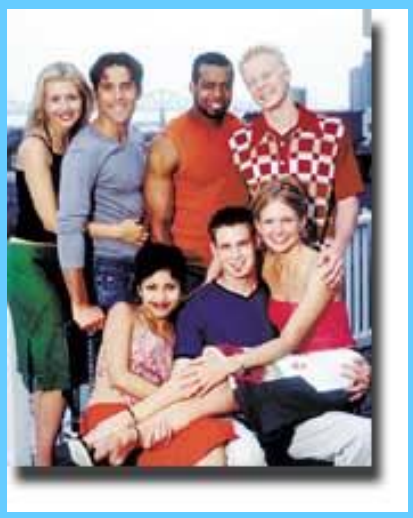
---

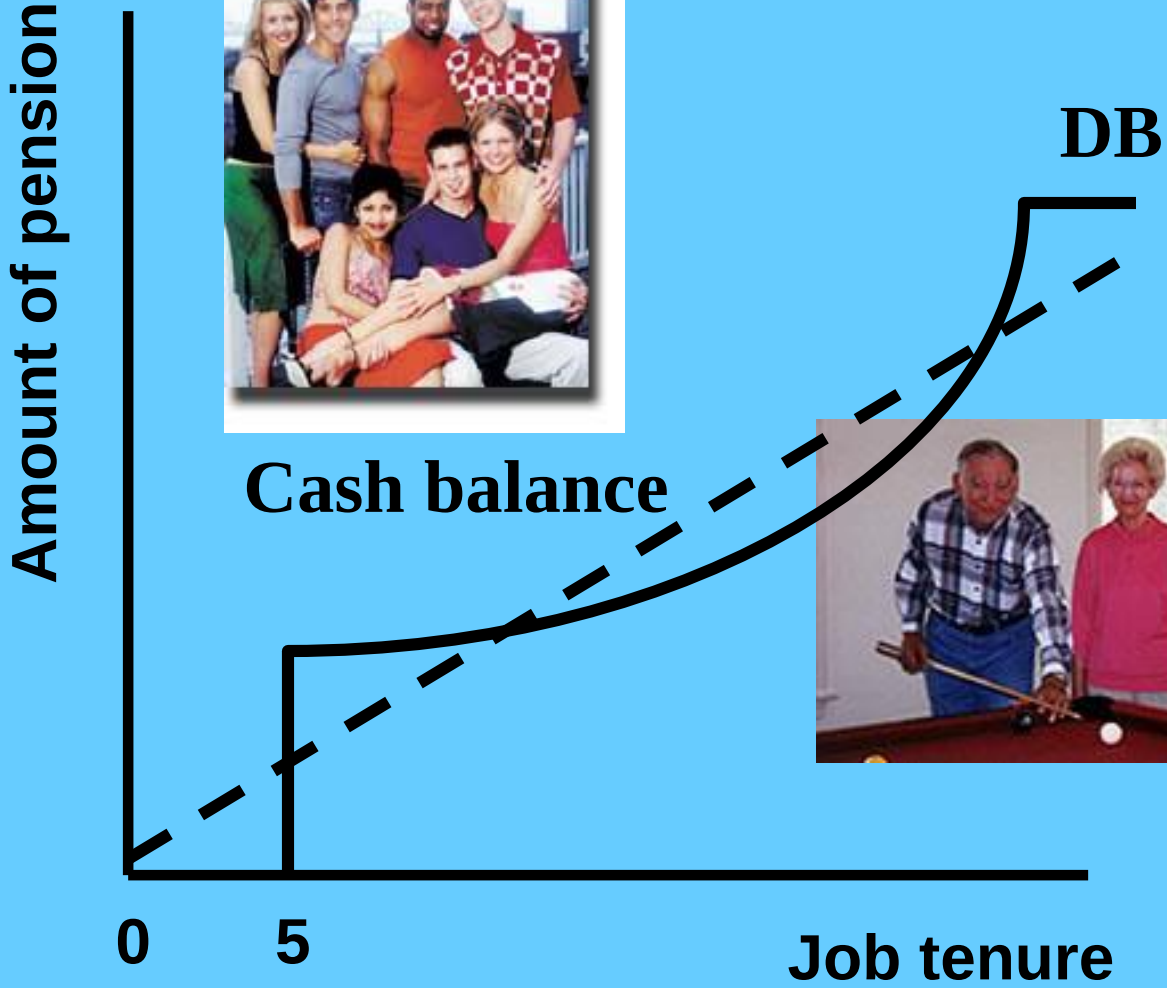
- New cash balance approach seeks compromise between DB and DC
  - More portability
  - Flatter value curve
  - More lawsuits

Compensation: Pensions

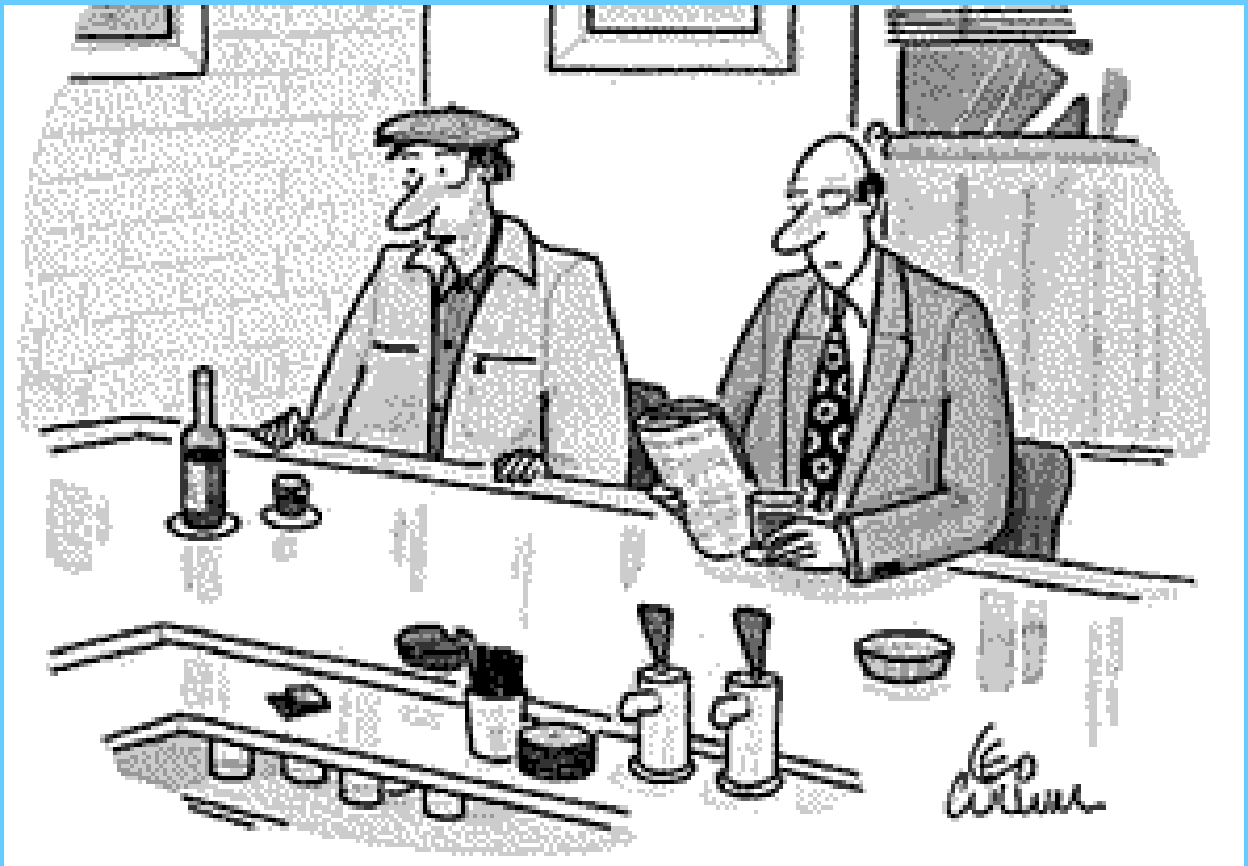
Stylized DB vs. Cash Balance Plans

Twentysomethings vs. near retirees





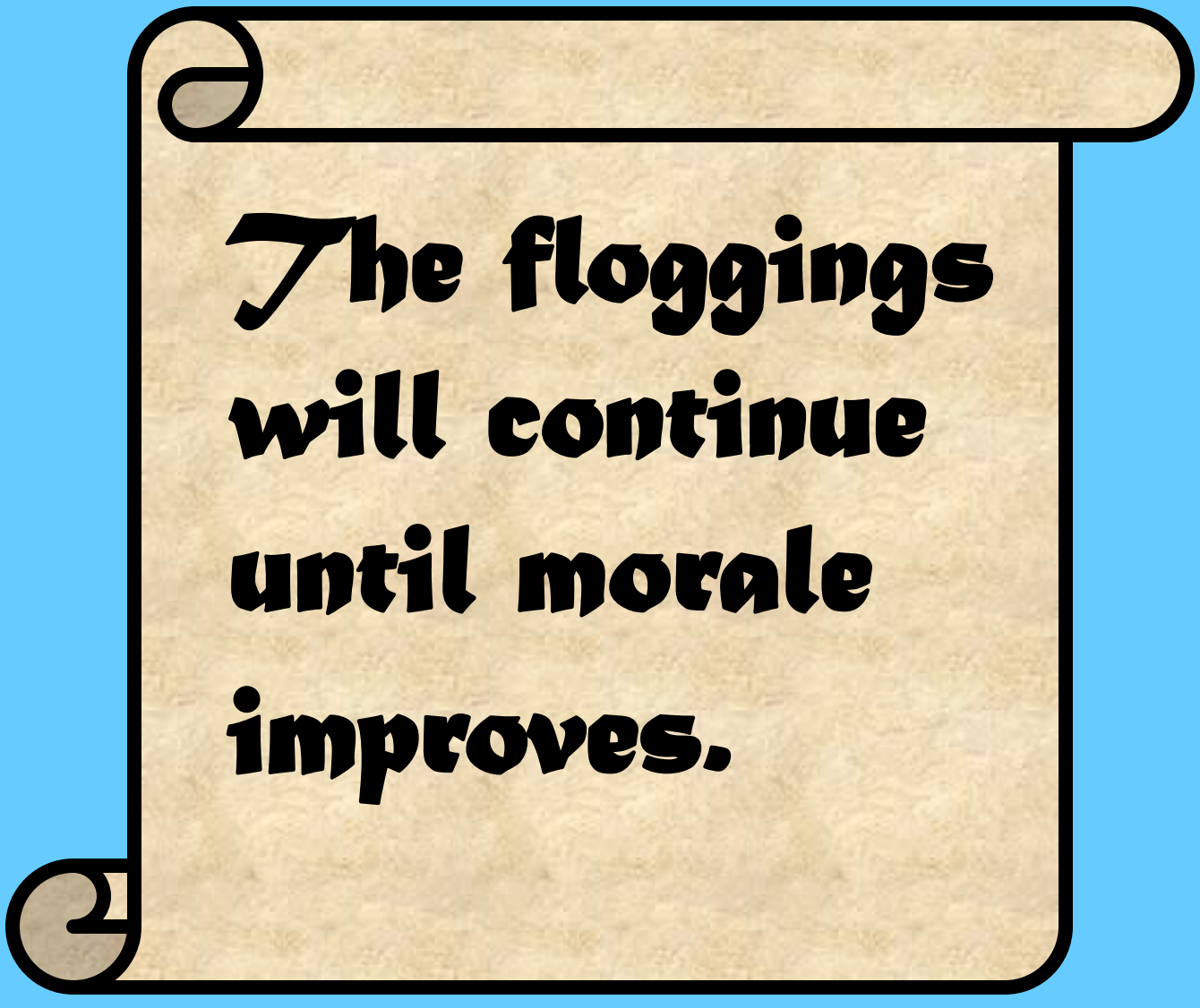
Compensation: Pensions



"I rolled my pension over and over and over, and now I have no idea where the hell it is."

Revived interest in "pay for performance" starting in 1980s

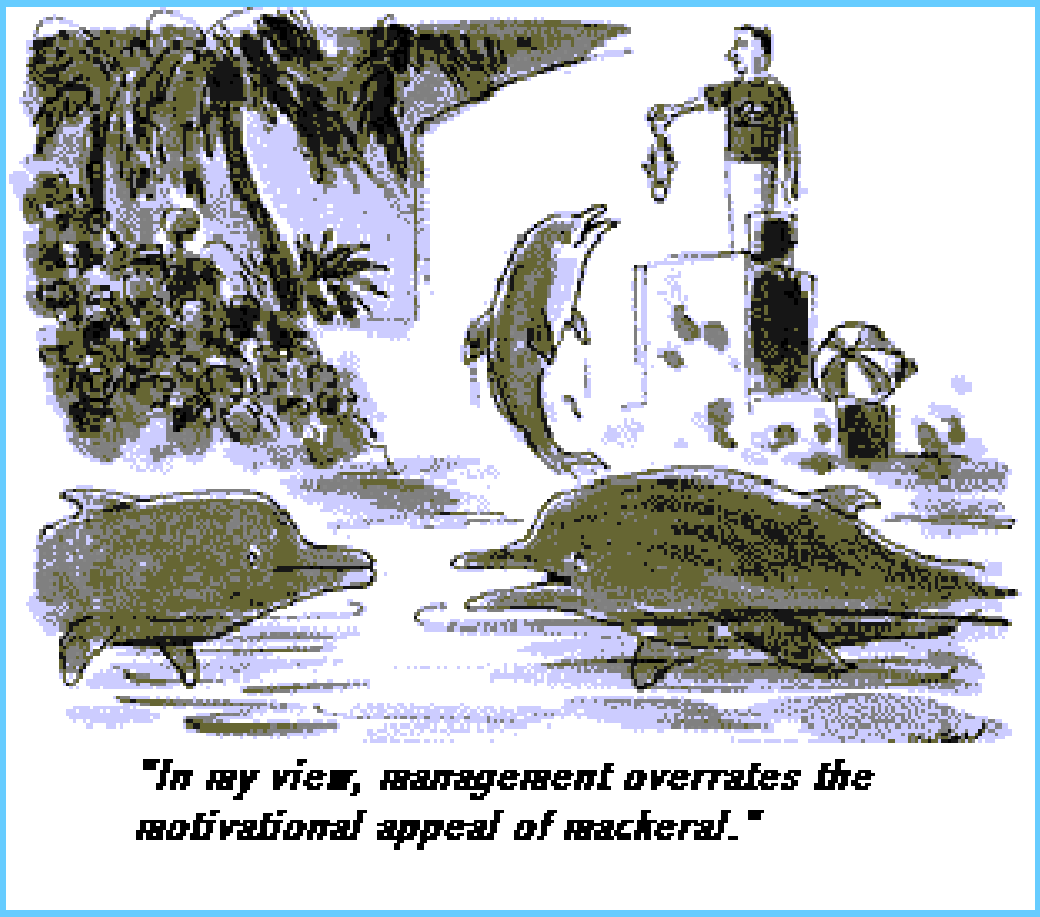
- Perceived lag in US productivity growth
  - Micro
  - Macro
- Weitzman idea that "stagflation" might be cured by changing pay system


The floggings will continue until morale improves.

Alternative Pay Systems

CATBERT: EVIL H.R. DIRECTOR
THE AVERAGE PERFORMANCE EVALUATION FOR YOUR GROUP IS TOO HIGH.
www.dilbert.com scottadams@aol.com
DO YOU WANT ME TO LOWER THEIR RATINGS OR THEIR ACTUAL PERFORMANCE?
WHATEVER
© 2001 United Feature Syndicate, Inc.

Alternative Pay Systems



"In my view, management overrates the motivational appeal of mackeral."

Alternative Pay Systems

- **Piece rates**
  - **Mentioned in a fourth of union contracts**
- **Profit sharing**
  - **One third of Chamber of Commerce respondents**
  - **One eighth of full-time employees in govt. survey**
- **Gain sharing**
  - **Small, probably under 5%**
- **ESOPs**
  - **11% of Chamber of Commerce respondents**
  - **Under 4% of full-time employees in govt. survey**
- **Stock options**

Alternative Pay Systems

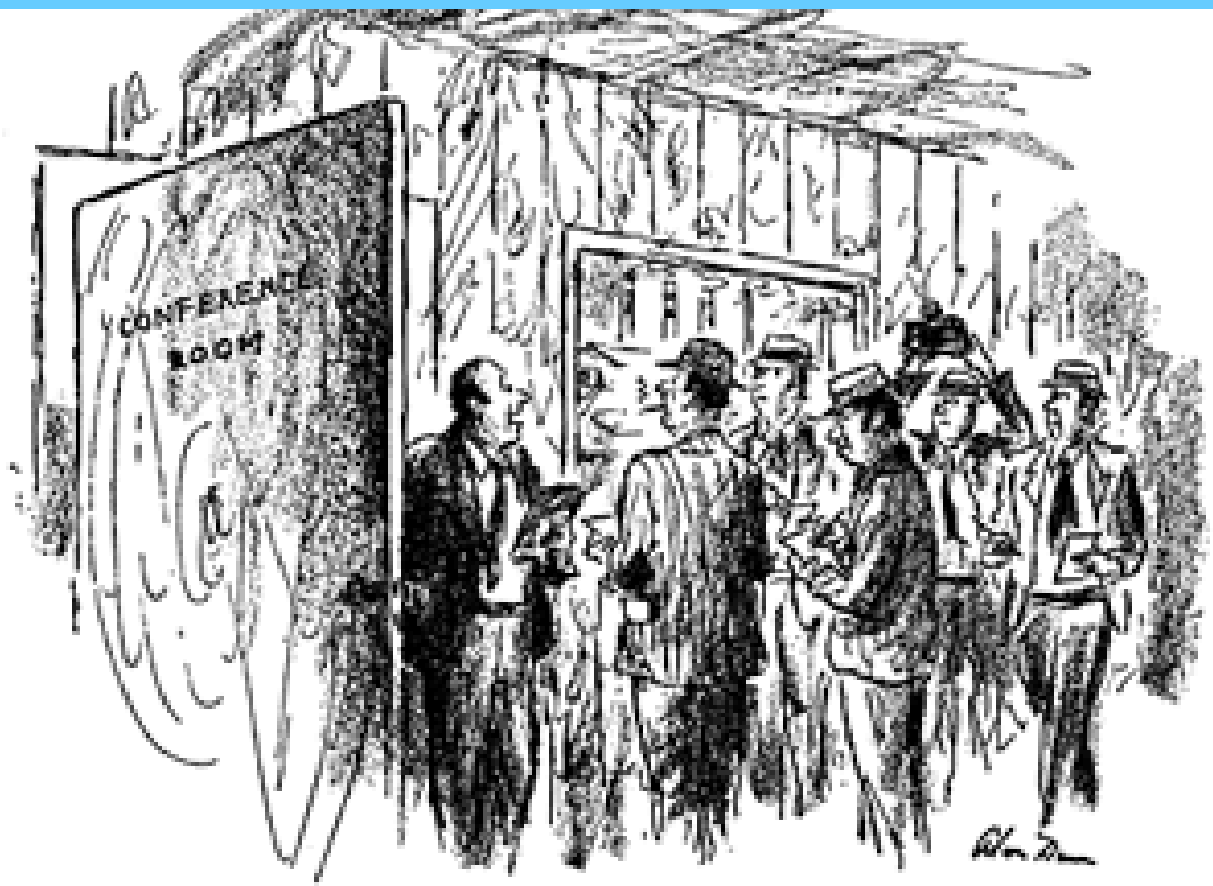
Stock options:

- 1.7% of non-executive employees in 1999
- Up from less than 0.5% in 1993
- 5.3% of employees in establishments with publicly-traded stock
  - One fifth of executives
  - 2% of employees making less than US$35,000
  - 27% of non-executives making > US$75,000

"I don't want stock options. I want you to pay your tab."

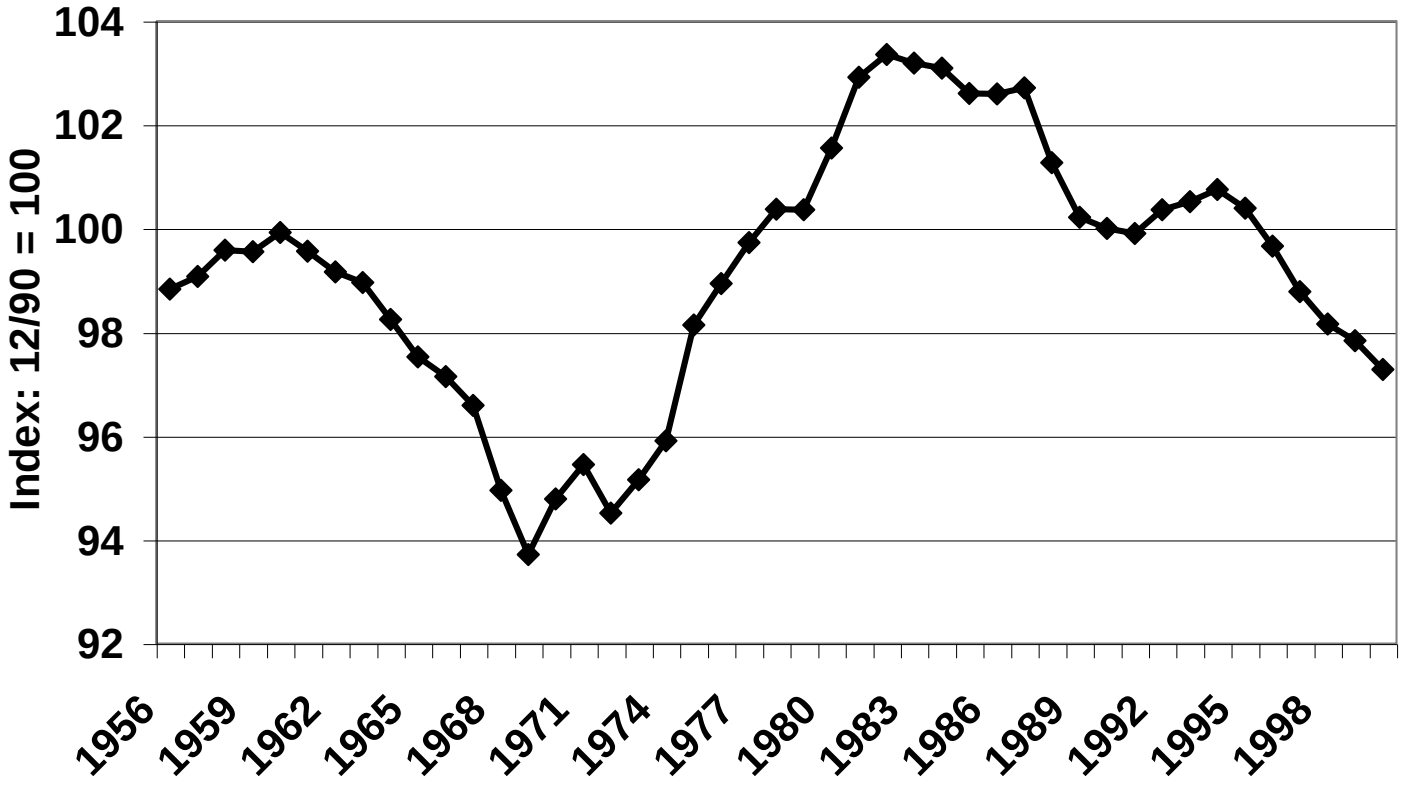
Employee Relations

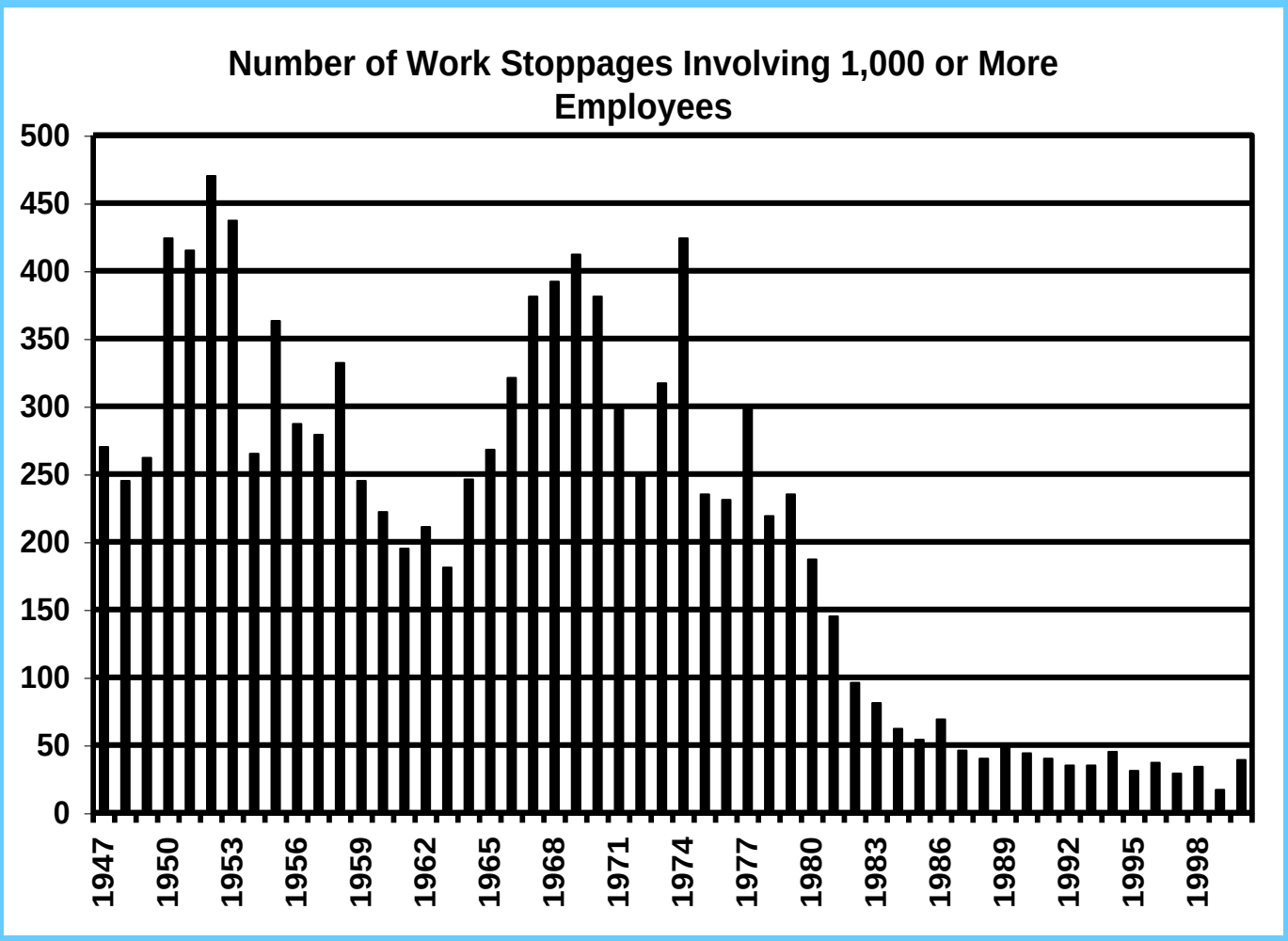
- Union
- Litigation
- Nonunion



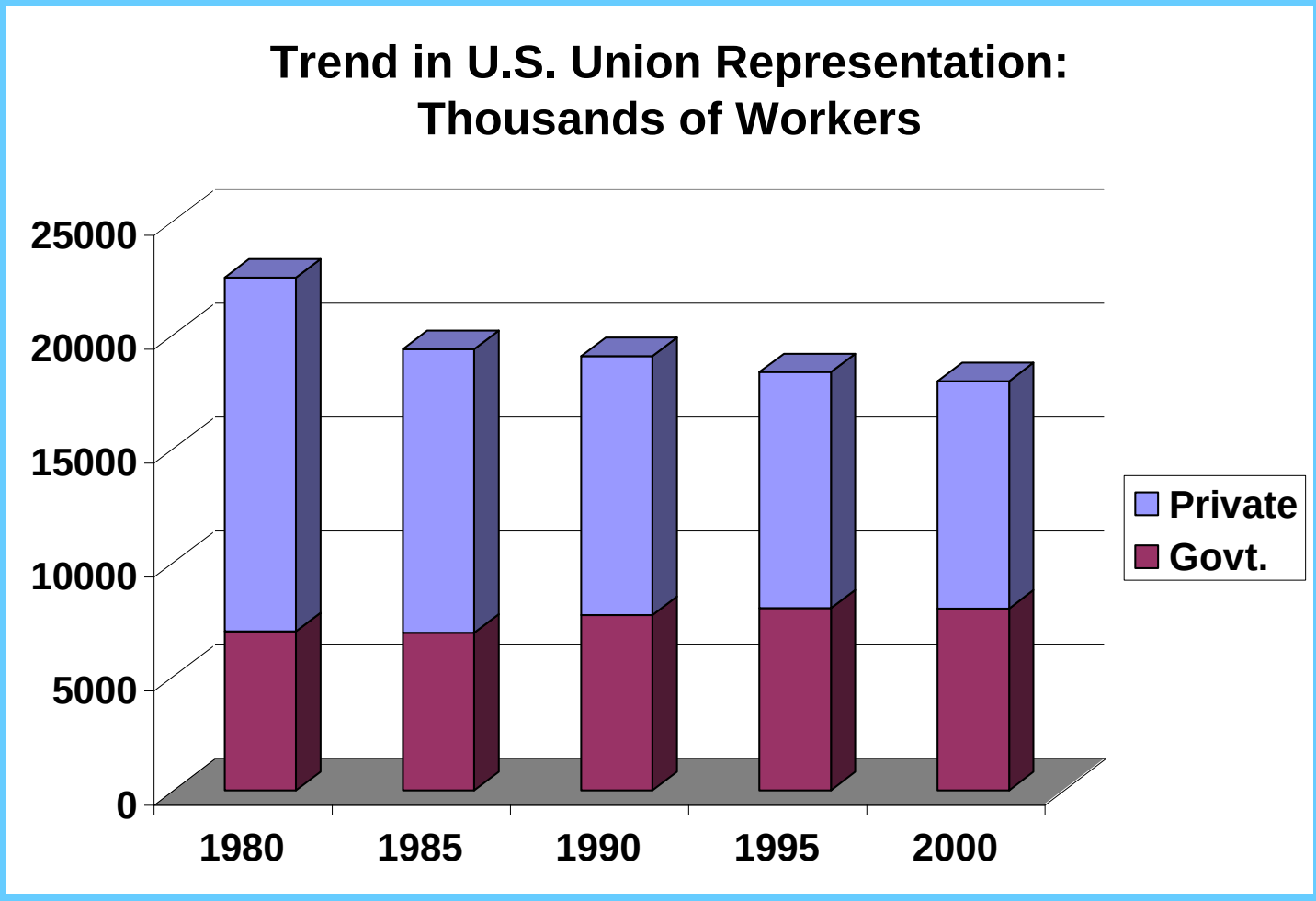
"Gentlemen, nothing stands in the way of a final accord except that management wants profit maximization and the union wants more moola."

Union Wage/Economy Wage



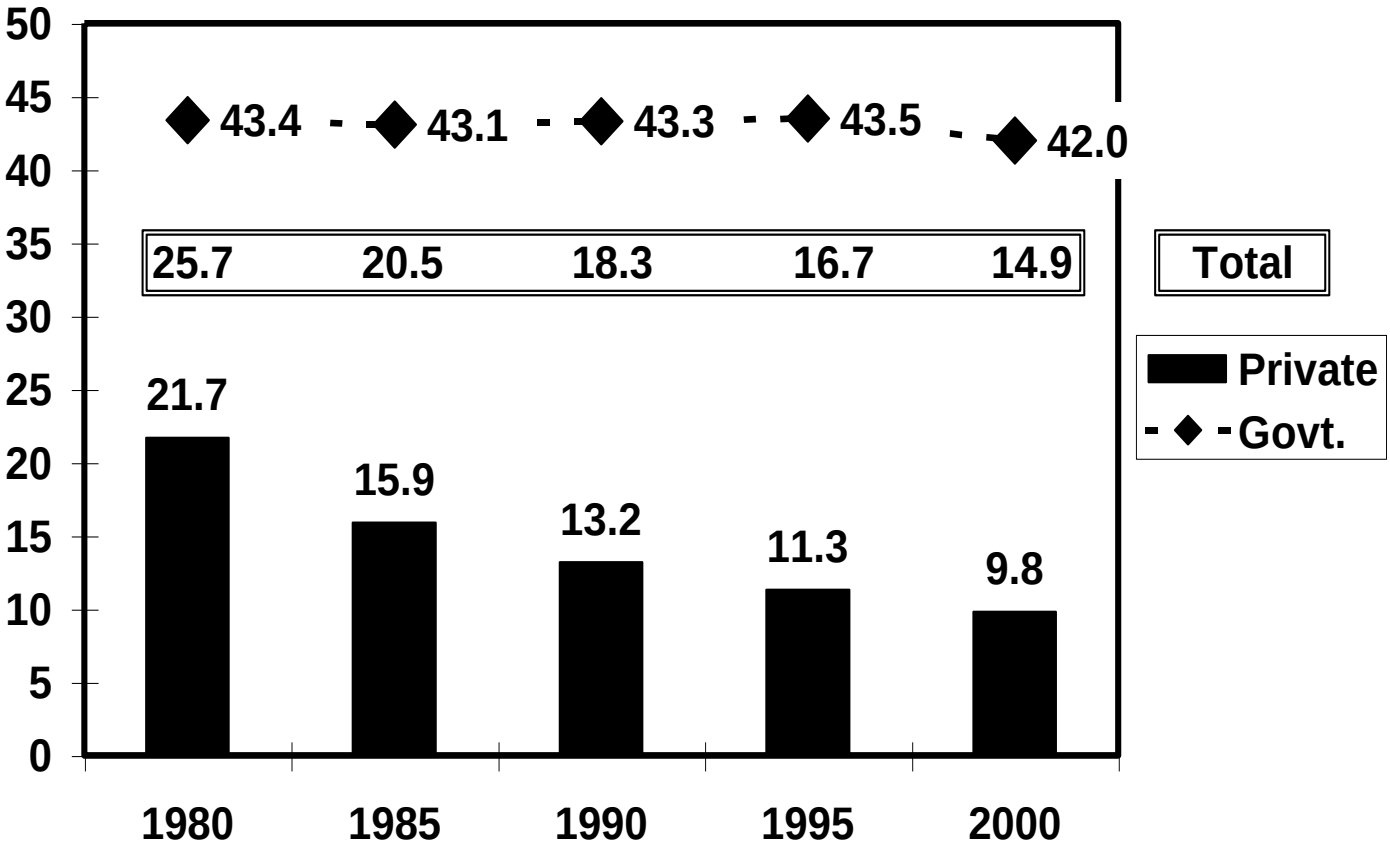


Strikes are now rare


Trend in U.S. Union Representation:
Thousands of Workers
25000
20000
15000
10000
5000
0
1980
1985
1990
1995
2000
Private
Govt.

collective
bargaining

U.S. Union Representation Rate: Percent of Wage & Salary Workers



Union Strategy in Response to Decline

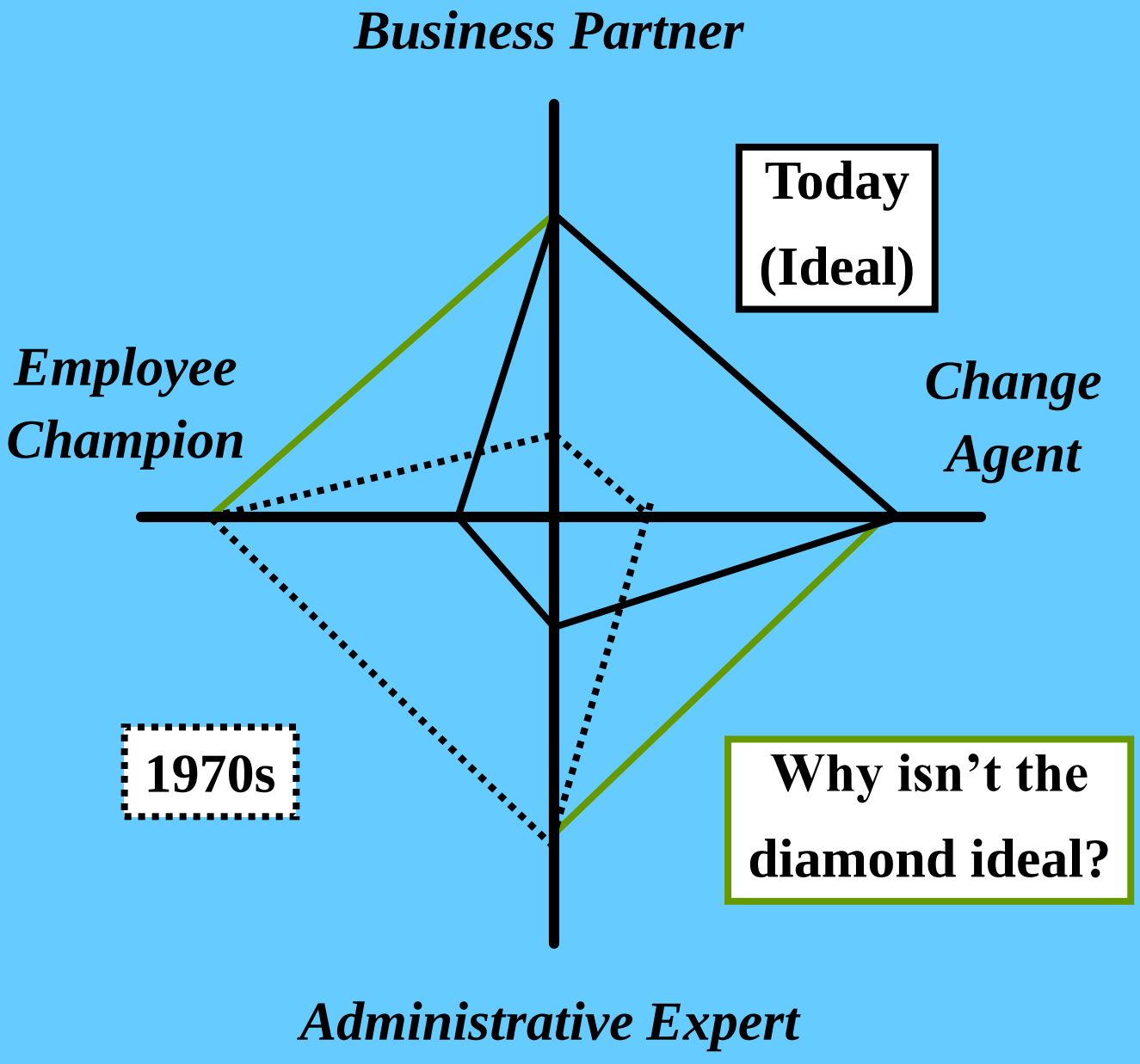
- **New leadership elected at AFL-CIO (palace coup)**
- **Official position is to put more money into organizing**
- **Emphasis on low-wage immigrants**
- **Ex: "Justice for Janitors" campaign**
  - **Focus on public sympathy**
  - **Enlistment of political, religious, community leaders**

So, warm, shall I tie you up in litigation?
Yes, please, and make it lengthy and expensive!
Shanahan
MISTRESS DOMINATRA, ESQ.

Nonunion Representation

- **Individual**
  - **Open door policies**
  - **More formal systems**
  - **Arbitration**
- **Group**
  - **Quality circles**
  - **Employee involvement**
  - **"Electromation" issues**

Role of HR as depicted recently by a consultant



The Future

The Future

Click the crystal ball
for your reading.

The Future

Click the crystal ball
for your reading.

The Future

Workforce Diversity

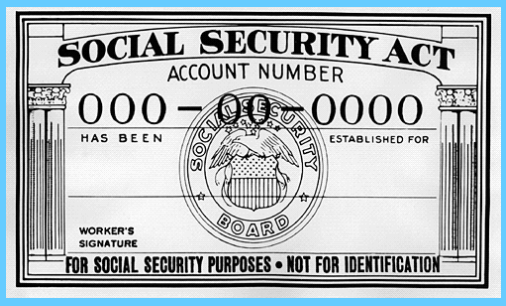
Workforce Aging

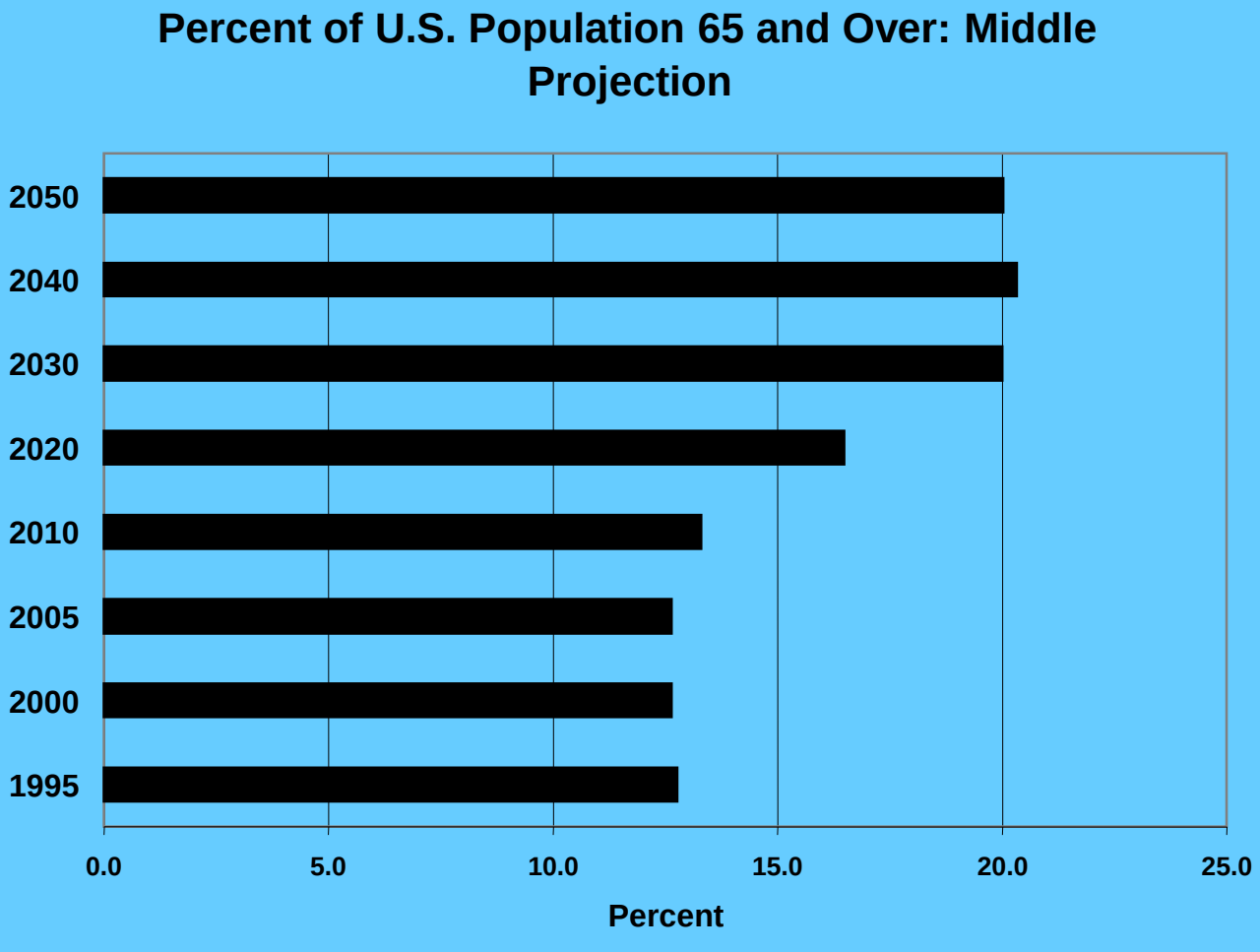
Workforce Diversity

	1988	2008
Male	55.0%	52.5%
Female	*45.0*	*47.5*
Black	*10.9*	*12.4*
Asian & other	*3.0*	*5.7*
Hispanic	*7.4*	*12.7*
Non-Hispanic white	79.0	70.7
Age 55 & over	*12.4*	*16.3*

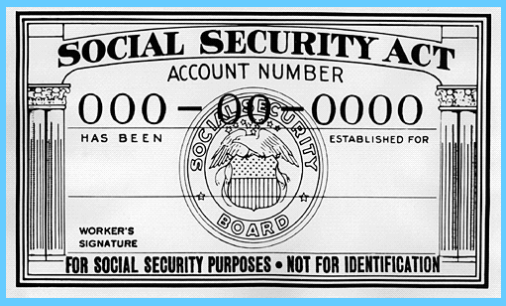
Note: Some blacks are also Hispanic.

Baby Boomers



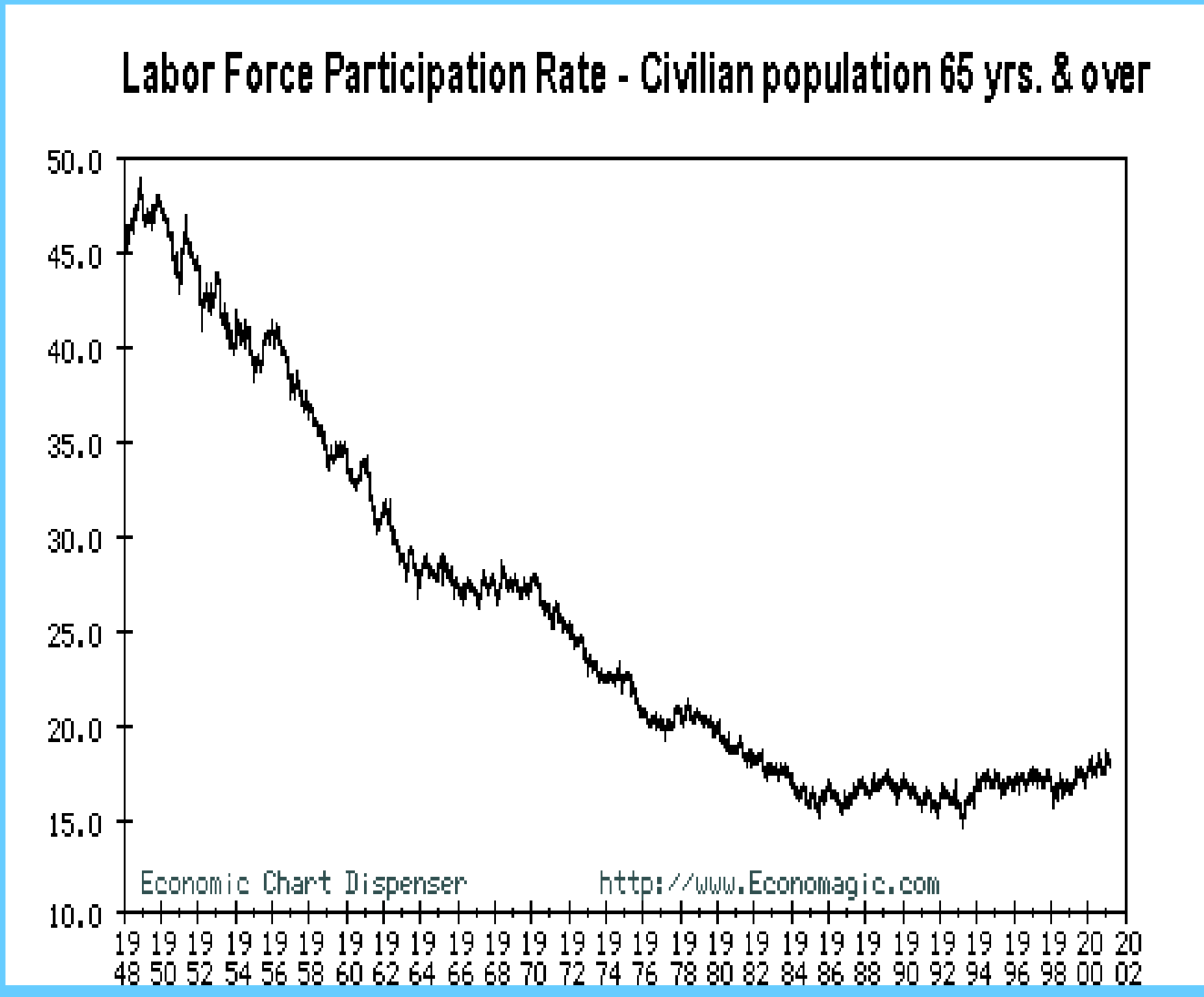


An Aging Population

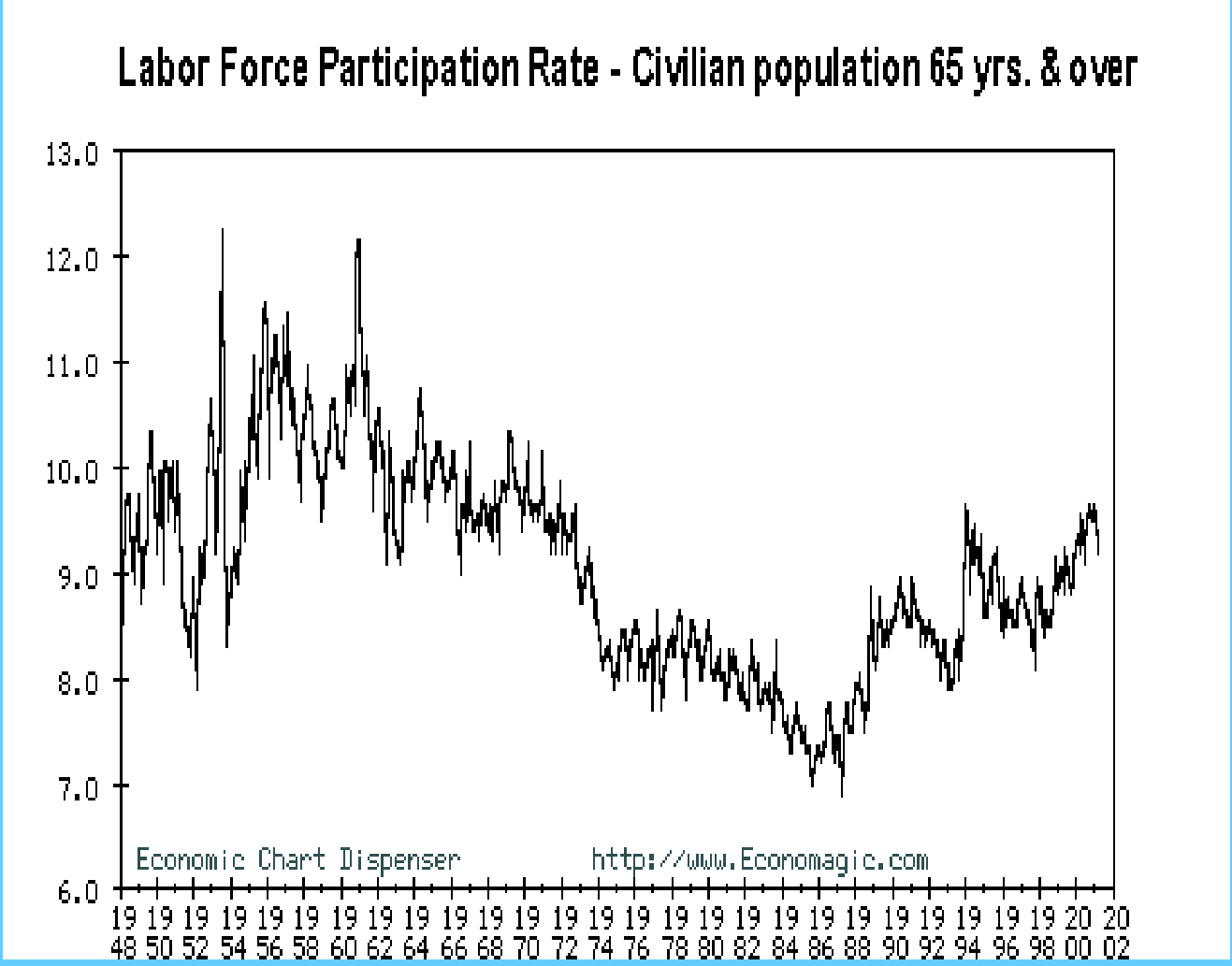


"By the way Sam, as someday you'll be paying for my entitlements, I would like to thank you in advance."

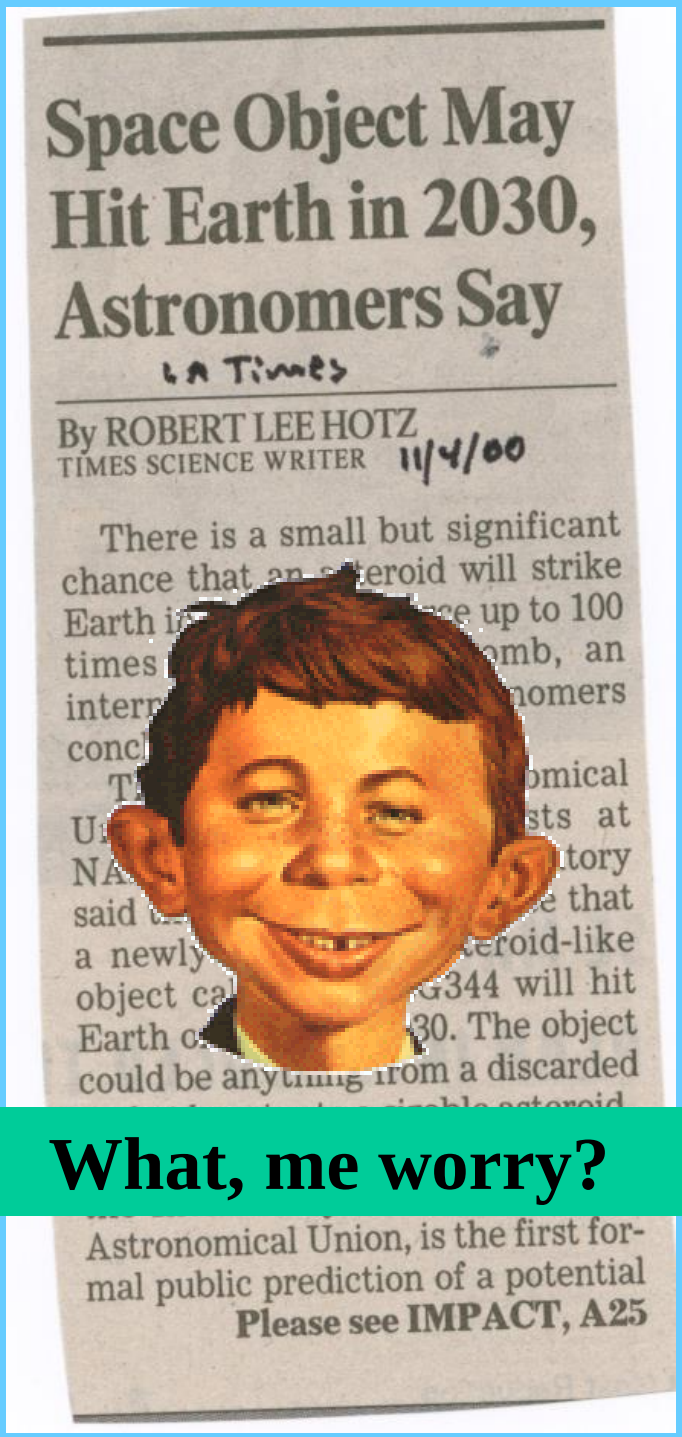
Social Security and Pension Impact on Males



Social Security and Pension Impact on Females



Maybe it's not a problem.



Space Object May Hit Earth in 2030, Astronomers Say

LA Times

By ROBERT LEE HOTZ
TIMES SCIENCE WRITER 11/4/00

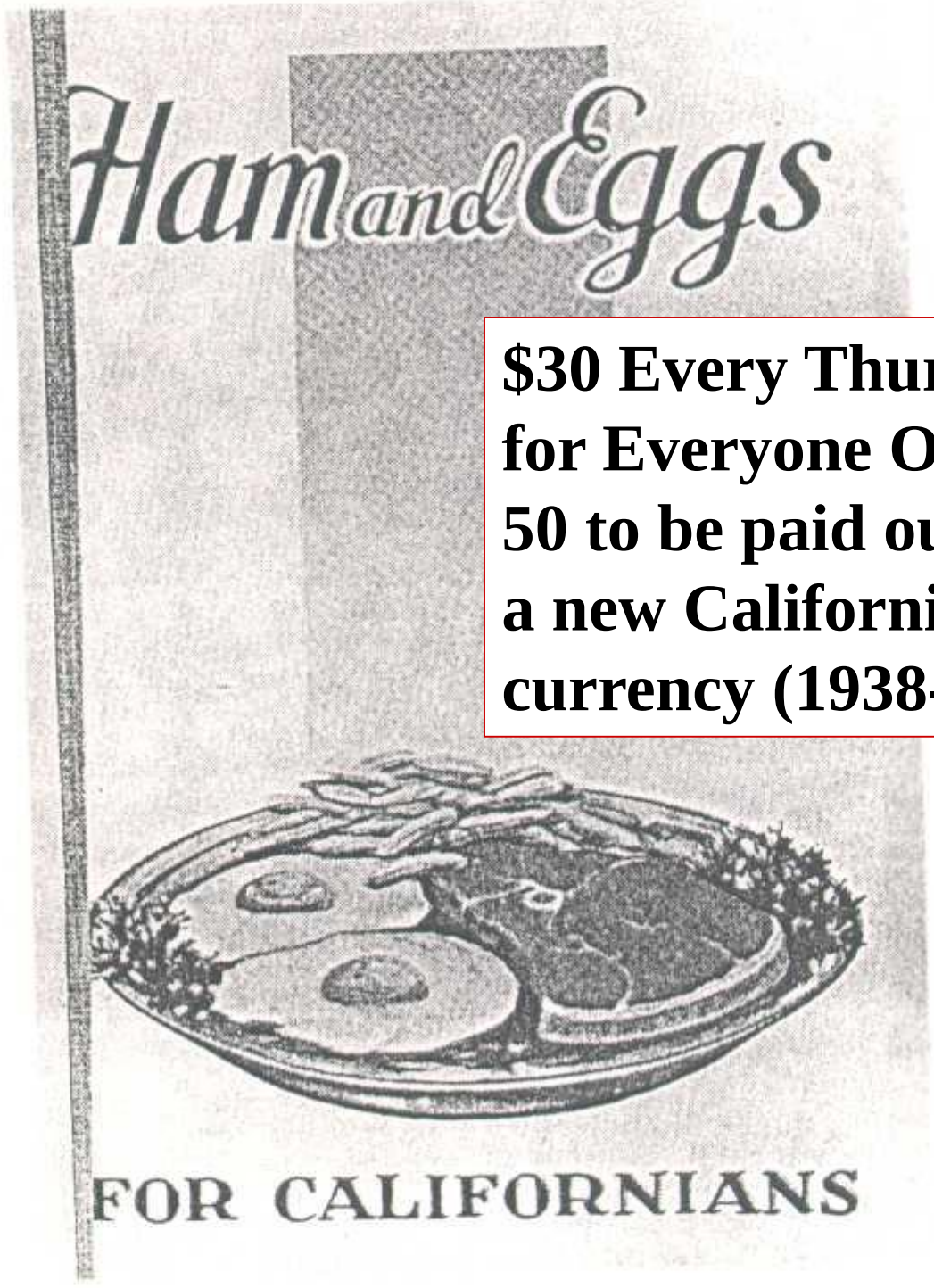
There is a small but significant chance that an asteroid will strike Earth in [illegible] up to 100 times [illegible]mb, an interr[illegible]nomers concl[illegible]

T[illegible]omical U[illegible]sts at NA[illegible]tory said t[illegible]e that a newly [illegible]teroid-like object ca[illegible]G344 will hit Earth o[illegible]30. The object could be anything from a discarded

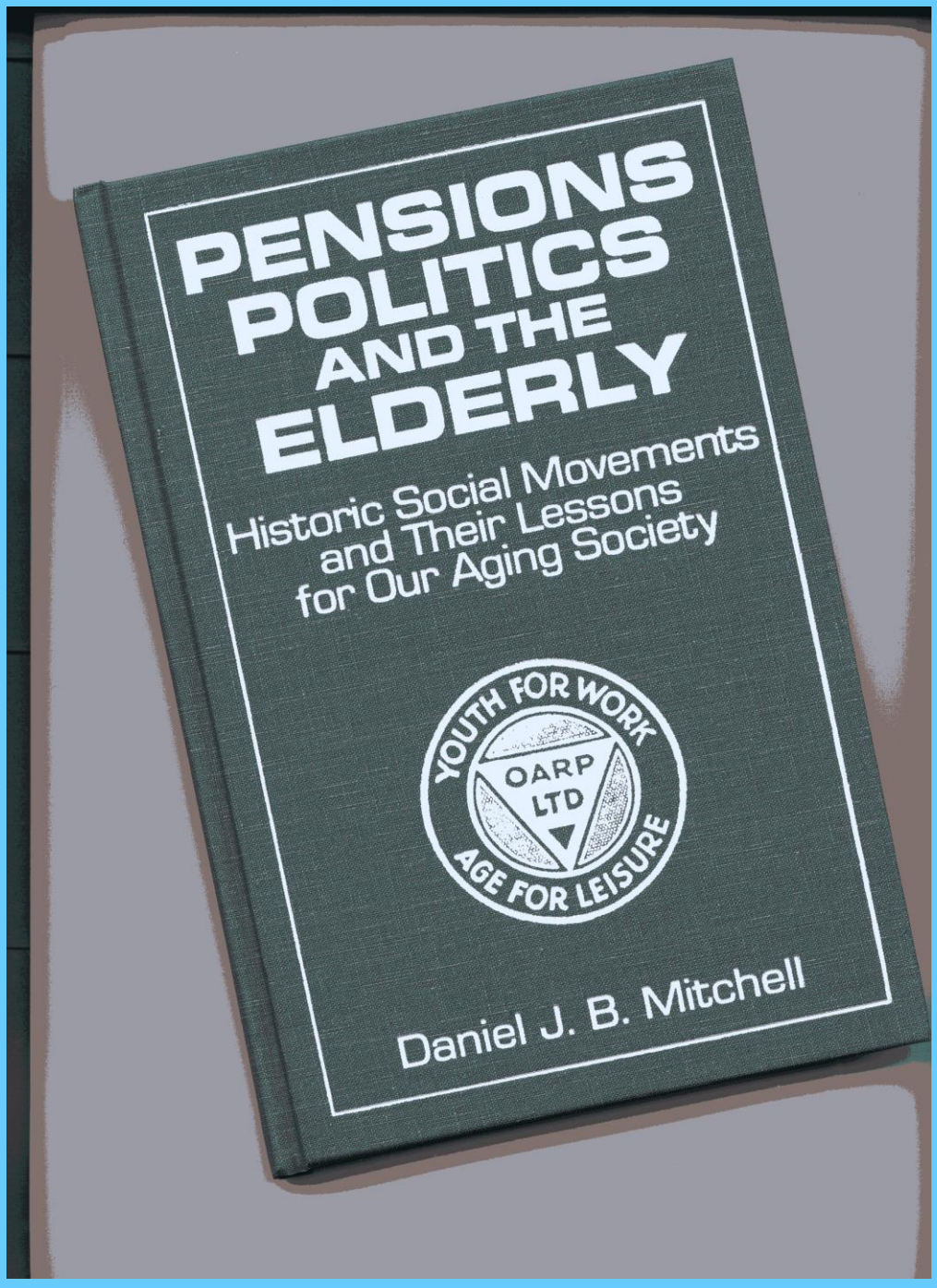
Astronomical Union, is the first formal public prediction of a potential

Please see IMPACT, A25

What, me worry?



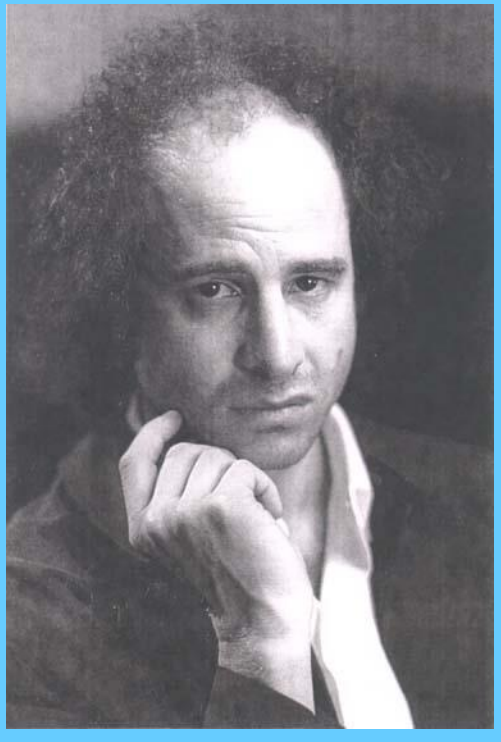
$30 Every Thursday for Everyone Over 50 to be paid out of a new California currency (1938-39)



SHAMELESS PLUG

“You can’t have everything. Where would you put it?’

Stephen Wright



THE END